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**IMPACT ASSESSMENT**

**Common Agricultural Policy towards 2020**

**ANNEX 3,  
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**Annex 3, sub-annex 3A, sub-annex 3B, sub-annex 3C,  
sub-annex 3D:  
Direct payments**

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AWU	Annual working units
CAP	Common Agricultural Policy
CAPRI	Common Agricultural Policy Regionalised Impact model
CATS	Clearance Audit Trail System
DG AGRI	Directorate-General for Agriculture and Rural Development
DP	Direct Payments
EAGF	European Agricultural Guarantee Fund
ECA	European Court of Auditors
EU	European Union
EU-27	European Union after the enlargement on January, 1 <sup>st</sup> 2007
EU-10	Member States that joined the European Union on May, 1 <sup>st</sup>
EU-2	Bulgaria and Romania
EU-12	All Member States that have joined the EU since May, 1 <sup>st</sup> 2004
EU-15	Member States of the European Union before May, 1 <sup>st</sup> 2004
EUR	Euro
Eurostat	Statistical Office of the European Communities
FADN	Farm Accountancy Data Network
FNVA	Farm Net Value Added
GAEC	Good Agricultural and Environmental Conditions
GDP	Gross Domestic Product
ha	Hectare
IACS	Integrated Administration and Control System
LFA	Less Favoured Area
NHA	Naturally Handicapped Areas
NUTS	Nomenclature of Territorial Units for Statistics
PEA	Potentially Eligible Area
PPS	Purchasing Power Standard
SAPS	Single Area Payment Scheme
SPS	Single Payment Scheme
UAA	Utilised Agricultural Area
WTO	World Trade Organisation
YFS	Young Farmer Scheme

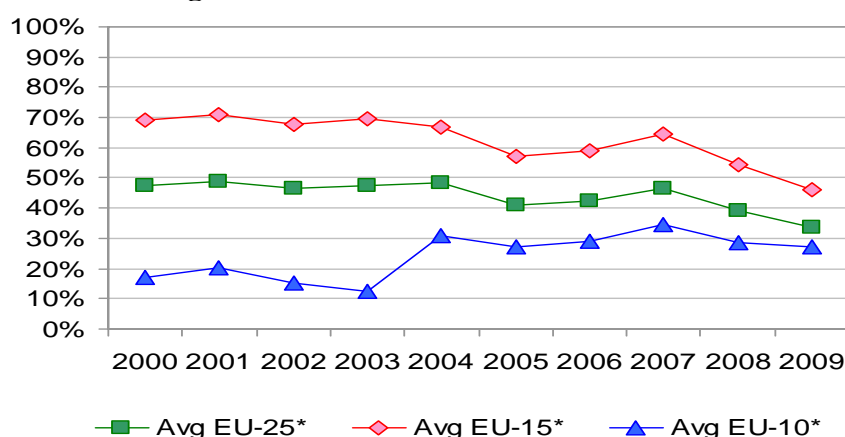


## 1. BACKGROUND AND STATE OF PLAY

Direct payments have been one of the main<sup>1</sup> support instruments to the agricultural sector in the EU since the early 1990s, but their nature has changed significantly over the years. With the 1992 reform, they were introduced as coupled payments, linked to production based on area or animals and compensating farmers for cuts in price support. From 2003, direct payments were gradually decoupled from farmers' production decisions. In order to decide the rate of payment each farmer was eligible for, previous support receipts (linked to either the individual farmers' or the regions' production history) were used as reference. The introduction of direct payments helped to steer the CAP towards consistent market oriented reforms for the past two decades.

The design of the payments, de-coupled from production, has encouraged farmers to become more market oriented, thereby enhancing the competitiveness of the agricultural sector. The income support function of direct payments has contributed to ensure the longer term economic viability, and a smooth structural adjustment of the farming sector. This is particularly important given the relatively low level of income in the agricultural sector<sup>2</sup>, which on average remains below 50 % of the average salary in the total economy in the EU-27 (see Figure 1 below).

**Figure 1: Evolution of agricultural income as a % of ave. income in the economy<sup>3</sup>**



<sup>1</sup> In budget year 2009, direct payments amounted to EUR 39 billion, which is 84 % of the EAGF expenditure for that year (with 50 % phasing in EU-10 and 30 % in EU-2).

<sup>2</sup> The analysis in this Impact Assessment focuses on farms and the agricultural sector as unit of analysis, not on agricultural households. The reason for this is that the objectives of the CAP (see chapter 3 of the main IA report) are linked to the operation, competitiveness and performance of the sector/farm as an economic unit and not the economic survival of a household. Analysis in other sectors of the economy would also not consider the incomes of spouse or children gained in other sectors in order to measure the economic viability of a certain activity. Furthermore, there is little available data on incomes at the farm household level that could be used for analysis.

<sup>3</sup> The figures in the graph reflect the agricultural entrepreneurial income/AWU as a percentage of wages and salaries/AWU in the total economy. Note that these figures should be interpreted with care owing to conceptual differences between the measurement of farmer's income from agricultural activities and average wages in the economy, and that, due to the lack of reliable data on full-time equivalent labour statistics for the total economy for some Member States, only some of them have been considered to calculate the averages (EU-15\*: EL, ES, FR, IT, NL, AT, PT; EU-10\*: CZ, EE, HU, PL, SK; EU-25\* = EU-15\* + EU-10\* countries).

With the structural adjustment of EU agriculture ongoing, there remains today structural diversity across Member States and regions in income developments owing to a variety of factors, some historical others linked to natural and economic conditions (such as climatic conditions and differences in the functioning of land, labour and capital markets).

In addition to its role as income support for farmers, direct payments play a crucial role in the delivery of basic public goods through sustainable land management, due to the link between direct payments and the fulfilment of cross compliance<sup>4</sup> requirements. This link is crucial, as there is evidence<sup>5</sup> of undersupply of most important public goods, for which certain forms of land management are particularly beneficial (such as extensive livestock and mixed systems). The public goods concerned are mostly environmental and relate for example to maintaining agricultural landscapes, farm-land biodiversity, water availability, soil functionality, climate stability and air quality. Direct payments also contribute to public goods which are not related to the environment, such as rural vitality.

The support provided by direct payments, especially by enabling the continuation of farming in more economically marginal areas, is a precondition for being able to provide more specific public goods throughout the EU territory, e.g. through rural development measures. Therefore, the two elements, income support and basic public goods, are complementary objectives of the direct payments.

## **2. ACHIEVEMENTS AND CHALLENGES**

### **2.1. Role of direct payment in supporting agricultural income**

Over the previous fifteen years, agricultural income in the EU-15, measured as real factor income per full-time worker (annual working unit, or AWU), have shown very modest developments<sup>6</sup> (see Figure 2). On the other hand, agricultural income in the EU-12 has increased considerably over the last decade, supported by the gradual phasing in of direct payments following EU accession. The medium-term outlook for EU agricultural income under a constant policy assumption displays a similar pattern, with EU-15 exhibiting only a moderate increase, but the EU-12 is expected to grow at a faster pace driven by

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<sup>4</sup> Cross compliance links the payments to the respect of basic rules related to environment, health and animal welfare. For instance, GAEC (Good Agricultural and Environmental Conditions) obligations are related to preserving landscape features, permanent grassland conservation, water courses and soil conservation. Farmers' direct payments are reduced when cross compliance obligations are not fulfilled.

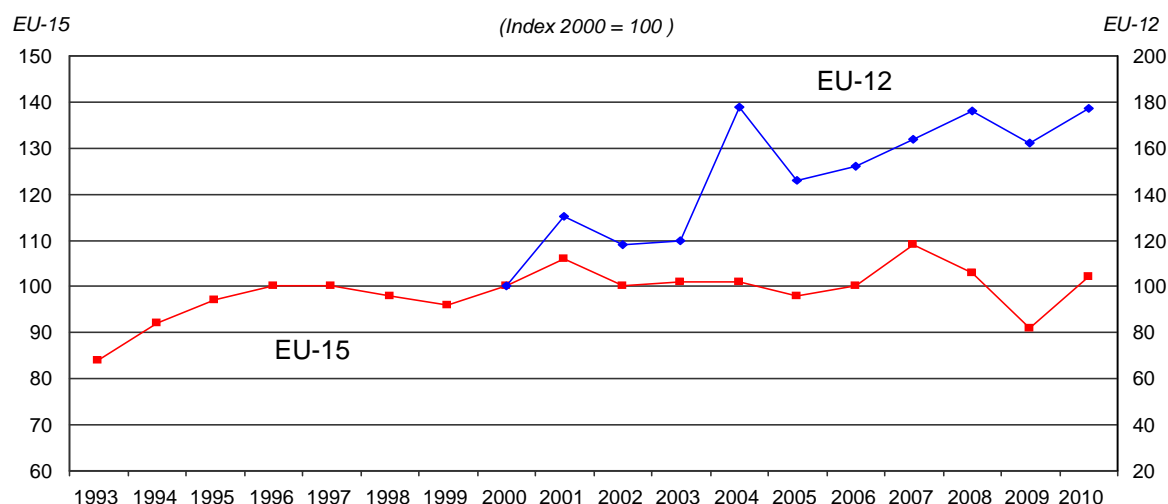
<sup>5</sup> See "The Provision of Public Goods Through Agriculture in the European Union", Report for DG AGRI, Cooper, T., Hart, K. and Baldock, D. (2009) Contract No 30-CE-0233091/00-28, Institute for European Environmental Policy, London.

<sup>6</sup> See "Developments in the income situation of the EU agricultural sector", December 2010, DG AGRI-FADN, [http://ec.europa.eu/agriculture/rica/pdf/hc0301\\_income.pdf](http://ec.europa.eu/agriculture/rica/pdf/hc0301_income.pdf)

the full phasing in of direct payments, as well as a higher value of production and assumed decline in farm labour<sup>7</sup>.

Recent developments have also shown (or served as a reminder) that agricultural income is highly volatile. During the period 1993-2010, the annual variation of farm income exceeded the preceding three year averages by more than 30 % in about 54 % of agricultural holdings. Figure 2 also highlights that income volatility has been exacerbated by the recent commodity price boom, economic crisis and subsequent economic recovery.

**Figure 2: EU developments in agricultural income (income per AWU in real terms)**

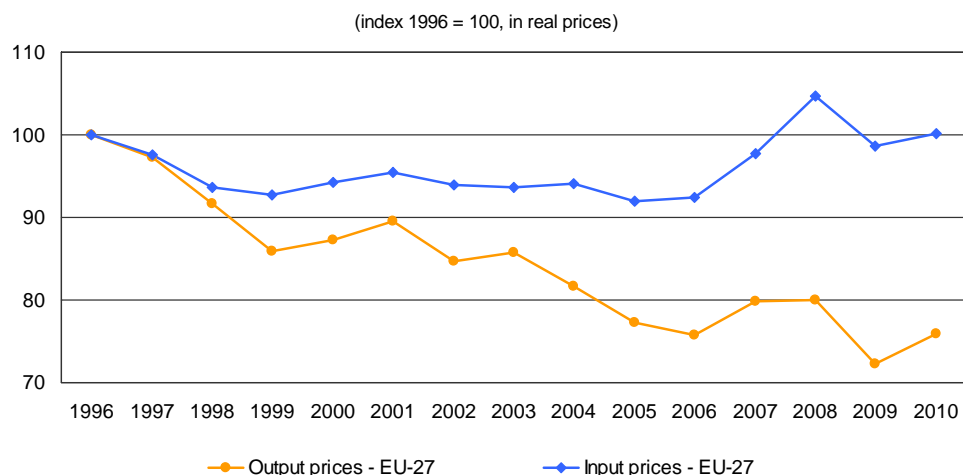


Source: DG AGRI, Eurostat

Income variability is mostly due to the volatility of input and output prices as well as changes in production levels (e.g. due to yield variability). Income variability is particularly critical for small farms, since when income is generally low, small changes can have a relatively large impact. In addition, the farm sector has shown a steady deterioration in its terms of trade since 1996, driven by the diverging dynamics of input and output prices (cf. Figure 3 below). This divergence between output and input prices constitutes the main factor behind the drop in income at sector level.

<sup>7</sup> The outlook for agricultural income is presented in Annex 1 on the *Situation and prospects for EU agriculture and rural areas*.

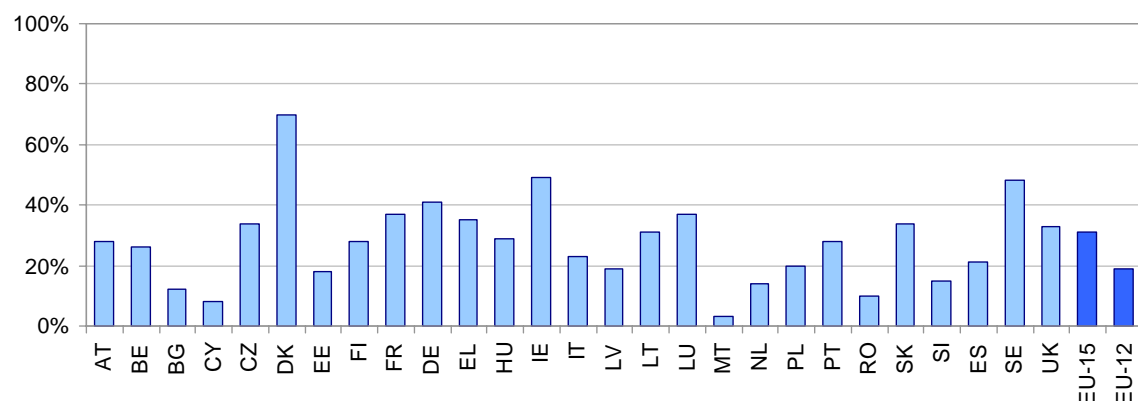
**Figure 3: Recent evolution of agricultural input and output prices**



Source: Eurostat

While the EU agricultural sector has displayed a rapid increase in farm size and a significant improvement of productivity, many farms still depend heavily on direct payments due to the low profitability of agricultural activities. Direct payments represented on average 29 % of agricultural income in the period 2007-2009 (with total subsidies coming close to 40 % of agricultural income). This needs to be seen against the background of important variations in agricultural income across Member States, regions and sectors, with sectors such as pig and poultry, milk and horticulture having on average higher income levels than grazing livestock or field crops. The share of direct payments in agricultural income in the different Member States is shown in Figure 4.

**Figure 4: Share of direct payments (expenditure) in agricultural factor income (avg. 2007-2009)<sup>8</sup>:**



Source: DG AGRI, Eurostat

As an evaluation of the income effects of direct support<sup>9</sup> has underlined, direct payments have proven to be an effective tool for enhancing the income of farmers and have made a

<sup>8</sup> During this period direct payments in EU12 are not yet fully phased-in.

<sup>9</sup> See "Evaluation of income effects of direct support", May 2011, Agrosynergie for the European Commission, DG AGRI, [http://ec.europa.eu/agriculture/eval/reports/income/index\\_en.htm](http://ec.europa.eu/agriculture/eval/reports/income/index_en.htm)

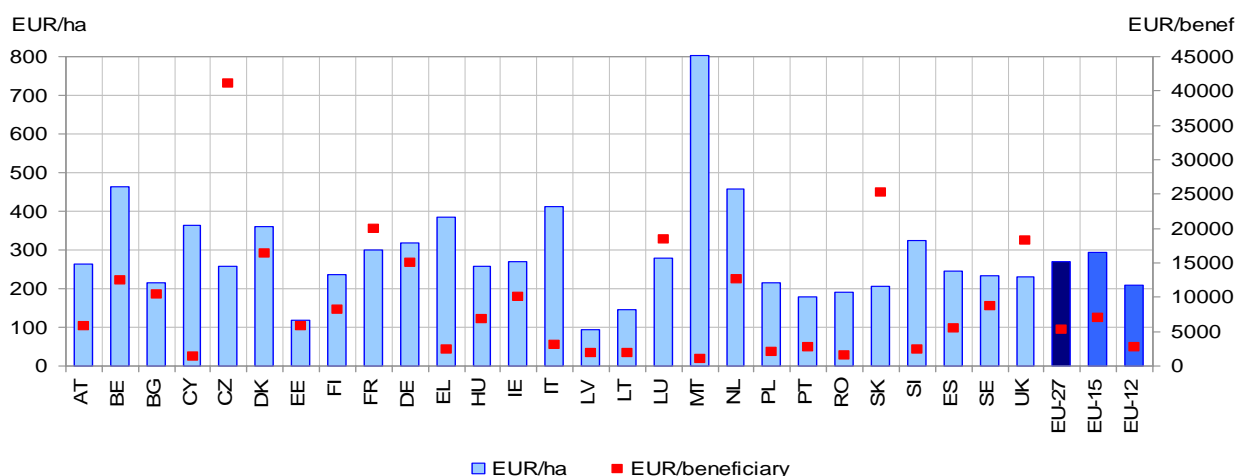
positive and robust contribution to the stability of these incomes (see [sub-annex 3A](#) for a summary of the evaluation report). It has also been shown that direct payments contribute to keeping sustainable farming in place throughout the EU territory, as well as providing a basis for the provision of public goods through agriculture<sup>5</sup>. However, there remain a number of concerns as regards their distribution, targeting and environmental performance. In particular, considerations have to be made with respect to a more equitable distribution between Member States and between farmers as well as a strengthened role in the provision of income support and public goods.

Distributional concerns stem from the current dissimilar distribution of support between individual farms and Member States. The latter issue is especially emphasized in the inter-institutional and public debate (as presented below) and by many of the new Member States (EU-12) that feel disadvantaged compared to EU-15 countries, because their average levels of direct payments per hectare are lower. Targeting relates to the idea of better linking payments to farmers to specific objectives related to the provision of public goods (e.g. the fulfilment of environmental objectives), or better adjusting income support to the need of different farms or areas. Furthermore, it is often felt that the increased policy emphasis on green growth, environmental and climate change issues could be better reflected in the design of direct payments.

## 2.2. Distribution between Member States

Figure 5 below illustrates the significant differences between Member States as regards the average direct payments per hectare and per beneficiary based on the current distribution.

**Figure 5: Average direct payments per beneficiary and per hectare in each Member State**



Source: DG AGRI

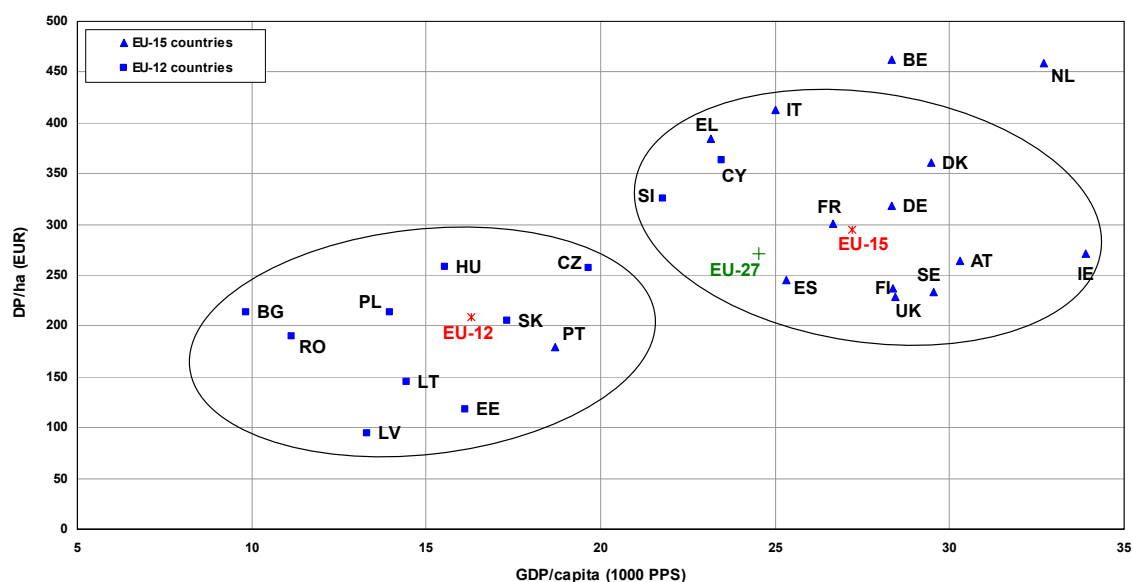
Note: simplified calculation of average direct payments based on the national envelopes of Member States after full phasing-in of direct payments in the EU-12 and the number of potentially eligible hectares communicated by MS in the Integrated Administration and Control System (IACS) for 2008 claim year.

In the previous reforms, the decoupling of direct payments linked to historical support values was considered to be the most neutral design of support in terms of impact on farms' asset values. Using historical production as a basis for defining payment levels had the advantage that it reflected, to some extent, the conditions for agricultural

production in a specific region. It was therefore politically realistic at the time to allow for the link between decoupled payment levels and historical support levels, especially since not all sectors were reformed at the same time. Today, as adjustments in all sectors have taken place and as twelve more Member States have joined the European Union with a substantially different production and support history, differences in support levels based on historical references cannot be justified on a long term. Even more so because farm structures and production pattern have of course changed since the reference periods. Moreover, direct payments based on historical production patterns do not reflect the fact that important environmental public goods tend to be provided by farms with lower yields. Those farms also tend to be more economically vulnerable and so in need of greater support.

However, the current level of direct payments is not just reflecting past production of the supported sectors, but also to a significant degree differences in the economic situation of Member States (see Figure 6 below). It is indeed important to remember that agricultural producers face very different economic and natural conditions across the EU.

**Figure 6: Average direct payments per hectare after full phasing in each Member State and GDP per capita (2007-2009 average)**



Source: DG AGRI (IACS statistics) and Eurostat (GDP/capita)

Note: ha = potentially eligible area from IACS statistics as communicated by MS, LU = 280 EUR/ha and 67 500 PPS/capita; MT = 802 EUR/ha and 18 800 PPS/capita. PPS = Purchasing Power Standard

### 2.3. Distribution between farmers within Member States

At present there are several models of implementation of the Single Payment Scheme (SPS) in Member States:

- The SPS can be implemented on the basis of a historical model or a regional model or a combination of both (so-called 'hybrid' model). In the historical model, farmers were given payment entitlements based on their eligible hectares and payments received in a reference period (2000-2002). The regional model is based on a uniform value of payment entitlements within a region based on average references of support at

regional level, while the hybrid model is a combination that can be either static or dynamic in time.

As regards the yearly activation of entitlements, it can only be done on the basis of an equivalent number of eligible agricultural land.

Since its implementation, SPS has evolved a lot including progressive decoupling in several sectors (cotton, olive oil, fruits and vegetables, etc.) and extending the eligible agricultural land to all types of agricultural lands that are at least maintained in good agricultural and environmental conditions.

- As a temporary derogation to the SPS, due to the absence of historical references, EU-12 Member States were allowed to apply a simplified model without entitlements called Single Area Payment Scheme (SAPS). In SAPS, the payment level is uniform over the entire Member State and calculated by dividing the direct payment envelope by the base area or, where it is bigger, the claimed area maintained in good agricultural conditions in 2003.

Sub-annex 3B of this note provides an overview of the implementation of direct payments in the EU-27. The variety of models of implementation and the discretion left to the Member States was deemed necessary at the time of the 2003 reform in order to better take into account Member State specificities in view of achieving the common goal of full decoupling and better market-orientation. However, with time, those differences are becoming less and less justified. For instance, certain eligible agricultural areas have been granted entitlements in regional models whereas not in historical models (e.g. fruit and vegetables). In addition, the use of past individual references to grant direct payments to farmers in Member States with historical models and the resulting wide range of the values of entitlements is also becoming hard to justify.

In addition, the flexibility left to the Member States in the choice of their direct payment model (historic, regional, hybrid), which was crucial for achieving almost full decoupling within few years, has led to large variations in the level of aid per hectare received by the farmers, depending on the region they are located in. For instance, in the Member States applying the historical model and also, to a lower extent, in Member States applying the regional model, using individual past references of production for determining the entitlements led to a lower level of direct payments<sup>10</sup> in areas with natural handicaps that are less productive while income needs and provision of public goods in these areas are important.

## **2.4. Distribution between smaller and larger farms**

The extreme ends of the distribution curve of direct payments per beneficiary (smallest and largest beneficiaries) are also often mentioned as problematic whereas it is the mere result of the support policy (area-based payment) and the structure of the farm sector. Indeed according to CATS<sup>11</sup> data for financial year 2009, around 80 % of the

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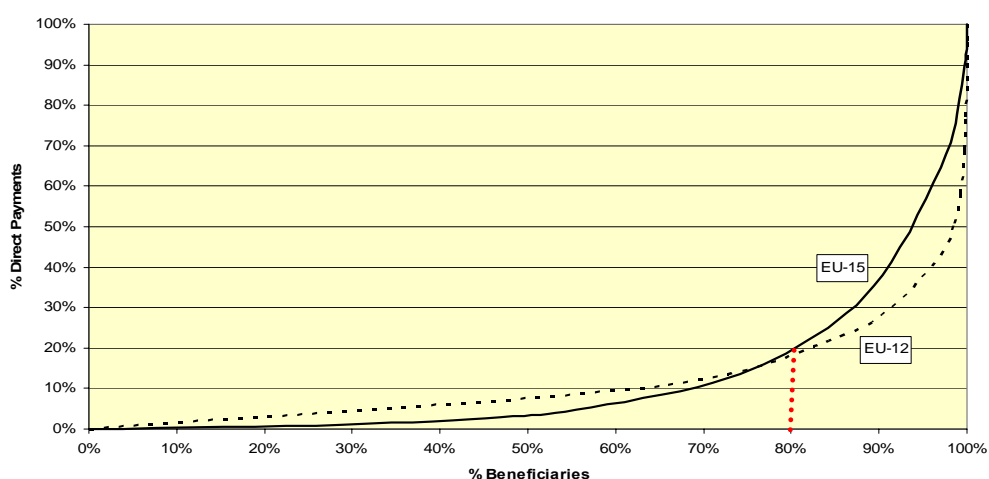
<sup>10</sup> Note that this statement refers only to direct payments while the total level of aids under the CAP (including support to LFA under Pillar II) can be higher in areas with natural handicaps.

<sup>11</sup> The Clearance Audit Trail System (CATS) manages the computerized data on payments under the CAP.

beneficiaries received EUR 5 000 or less representing around 20 % of the total amount of direct payments and around 0.5% of the beneficiaries received EUR 100 000 or more representing 16 % of the total amount of direct payments (see Figure 7).

The high level of aid received by some beneficiaries (despite the modulation mechanism introduced in the 2003 reform) is seen as too high to be justified as income support as it can be reasonably assumed that large farms benefit from economies of scale and therefore their income support needs may not be proportional to the farm size. At the same time, small farmers who can make a very important contribution to the vitality of many rural areas and may have higher needs for income support often face a disproportionately high administrative burden for access to support in relation to the payment amount they receive.

**Figure 7: Distribution of direct payments between beneficiaries in EU-15 and in EU-12:**



Source: CATS data (2009 financial year corresponding mainly to claim year 2008), DG AGRI calculation

## 2.5. Age structure in the farming sector

The farming community is ageing. Farm holders under 40 years of age make up only 14% of the population of farmers in the EU-27 and hold 20% of the potentially eligible area. The CAP has recognized this situation as a problem and addresses it in various ways, most importantly through the rural development measure “Setting-up of young farmers” and through the possibility to address young farmers indirectly under the SPS when allocating payment entitlements (provisions for farmers commencing their agricultural activity between the reference period and the first year of the SPS and later on by using the national reserve). However, as these approaches are not applied across the board in the EU-27, there is no generalised approach to improving the age structure in the farming community.

## 2.6. Non genuine farmers

Further criticism (e.g. from the European Court of Auditors) has focussed on the fact that some beneficiaries of direct support seem to carry out no or only very limited agricultural activity which should not entitle them to be supported as 'active farmers'. This is a consequence of decoupling where production activity is not a condition to be eligible to



the aid. This problem was already addressed in the Health Check of the CAP where optional rules for excluding persons whose principal business/activity is non-agricultural from receiving aid have been included in the legal framework. However, it can be argued that these rules have not adequately contributed to solving the problem as no Member State has made use of them.

## **2.7. Full decoupling in the context of regional or sectoral specificities**

Full decoupling has allowed obtaining more market orientation of EU agriculture while providing farmers a basic income support and thus a certain level of stability. However for some sectors and regions, the possibility to maintain some direct payments coupled to production was deemed necessary for economic, social and/or environmental reasons. Indeed, for instance, the maintenance of coupled support in the livestock sector, which could have been at risk of disappearing in some regions in case of full decoupling, contributed also to the maintenance of agricultural activity in these areas.

## **2.8. Environmental performance of direct payments**

As the current amount and distribution of direct payments is based on historical criteria and references of production, they tend to be concentrated in the most productive regions (mostly in the historic model but the same applies, albeit to a lower extent, in the regional model) without being adjusted to environmental and climate-related objectives beyond the link to basic standards of cross compliance.

The way entitlements have been allocated when decoupling was put in place did not envisage a specific targeting e.g. to farms that operate in more environmentally valuable areas. However, production adjustments following decoupling have generally been in the direction of less intensive production with related environmental benefits. Furthermore, one may argue that the decrease in permanent grassland area has been mitigated<sup>12</sup> by the granting of coupled aids for livestock<sup>13</sup> (beef, sheep and goat) and by the requirements of cross compliance which concern permanent grassland (minimum management requirements for permanent pasture and maintenance of the ratio of permanent pasture – see Article 6 of R. 73/2009).

The link of direct payments to cross compliance (together with farm advisory services) has increased the awareness<sup>14</sup> of farmers about existing environmental standards and about good environmental and agricultural practices such as preservation of landscape features, crop rotation, etc. Although not designed directly to that purpose, cross compliance has contributed to climate change mitigation (by reducing greenhouse gas emissions and by increasing carbon sequestration in soils) at farm level in the EU.

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<sup>12</sup> Reflecting environmental land use needs into EU policy: preserving and enhancing the environmental benefits of “land services”: soil sealing, biodiversity corridors, intensification / marginalisation of land use and permanent grassland. Final report to the European Commission, DG Environment on Contract ENV.B.1/ETU/2008/0030. IEEP and Alterra (2010).

<sup>13</sup> Evaluation of direct aids in the beef and veal sectors, October 2010

<sup>14</sup> Evaluation of the application of cross compliance as foreseen under Regulation 1782/2003 (July 2007)

However, the cross compliance system is still often perceived by farmers as an additional administrative burden<sup>15</sup>. In addition, some of the actions or good management practices required from farmers under cross compliance system (above the regulatory requirements) may have a certain cost which is not specifically compensated, given that it is considered to fall below the 'baseline'. This does not contribute to the acceptability of the actions by farmers.

For a detailed analysis of environmental aspects see Annex 2 of the Impact Assessment on "Greening of the CAP".

## **2.9. Simplification aspects**

The CAP Health Check brought some simplification at Member State and farm levels in the management of the direct support scheme in particular for the SPS (transfer rules, types of entitlements, etc.) and cross compliance. See detailed information in Annex 8 of the Impact Assessment on 'Simplification of the CAP'.

Maintaining the current well established rules would be easy for the Member States applying SPS. However, the coexistence of different SPS models (historic, regional, hybrid) which makes the policy framework more complex at EU level would also persist. Member States applying SPS will have in any case to set up a new system of entitlements when shifting to SPS (planned for 2014 at the latest), implying significant administrative burden for the national authorities as well as for farmers. Farmers would however also benefit from the flexibility offered by entitlements, i.e. the possibility to sell, lend or activate the entitlement on different hectares.

Complexity in the current policy framework stems also from the fact that supports for coupled production and supports to agri-environmental measures of Pillar II may be paid via Article 68 of Council Regulation 73/2009. This creates 'grey zones' of support and additional administrative burden in particular for Member States due to the necessity of defining consistent rules which do not lead to duplication of payment for the same operation.

In addition, there is a clear case for simplification of CAP rules for the smallest beneficiaries whose level of red tape compared to the level of their subsidies is rather disproportionate.

## **2.10. Results of consultation process as regards direct payments**

The Public Consultation, by which the Commission Services solicited input from interested parties on the broad policy options presented in the Communication on the CAP towards 2020<sup>16</sup> (referred to as the 'Communication' from here onwards), revealed that direct payments constitute an area of great concern for many stakeholders. There was little consensus on exactly what the impacts of redistributing direct payments would be, and many contributions related strongly to the geographic area/region/Member State the respondents originated from. Still, many argued for a more equitable distribution of

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<sup>15</sup> See Annex 8 of the Impact Assessment on 'Simplification of the CAP'

<sup>16</sup> Communication on the CAP towards 2020: meeting the food, natural resources and territorial challenges of the future, COM(2010) 672/5

payments, and stressed the importance of a transition which is smooth and takes into consideration short- and long term effects.

The introduction of capping to direct payments received mainly negative reactions, with references made to competitiveness, the functioning of markets and farmers' incomes. Targeting payments towards small farmers was more welcomed; although a few organizations feared that structural adjustment might be hindered, affecting the long-term competitiveness of EU agriculture. There seems to be agreement on the fact that those receiving payments should ideally be active farmers, but how this should be defined is a concern for many responding parties.

Many organisations emphasized the need for continued support to less favoured areas, and stressed its importance for agricultural production as well as for viable and economically sustainable rural areas. Some respondents pointed towards various benefits of keeping these payments in Pillar II.

Greening Pillar I was mentioned by many as an appropriate way to reach better environmental quality, increasing the delivery of public goods and creating opportunities for sustainable agriculture. Meanwhile, a substantial number of respondents (many of whom farmers) were against greening Pillar I, or concerned with the effects it would have on the competitiveness of EU farmers. Some respondents were also concerned that the proposed Pillar I measures may not be as efficient or cost-effective as targeted measures in Pillar II.

### **3. OBJECTIVES AND POLICY OPTIONS**

The previous chapter has highlighted that, while the role of direct payments as a basic income support and as a propagator of public goods remains important for EU agriculture, the environment and the vitality of rural areas in general, there is room to improve the equitability and targeting of this policy instrument.

In line with the objectives of the CAP of contributing to a viable, market oriented food production throughout the EU, ensuring the sustainable management of natural resources and the provision of environmental public goods, and contributing to the balanced territorial development and thriving rural areas (as elaborated in chapter 3 of the main Impact Assessment report), and based on the various elements identified during the public debate on the future of the CAP and the stakeholder consultation on the Communication as well as the additional issues described in the previous chapter, the following objectives for reforming the direct payment scheme can be established:

- A more equitable distribution of decoupled payments among Member States and among farmers in order to enhance direct payments effectiveness in supporting farmers' income and contributing to the provision of basic public goods;
- Better targeting of direct payments to the provision of public goods by:
  - providing incentives for simple, well-identified agri-environmental actions which have positive effects on the environment and climate change mitigation and adaptation and are applicable across the whole of EU territory;
  - simplifying/streamlining cross compliance requirements without watering down the system itself;

- Better targeting of direct payments to needs for income support by:
  - Supporting the maintenance of sustainable agriculture in areas with specific natural constraints and in areas where particular types of farming are considered particularly important for economic and/or social reasons;
  - Improving the definition of who should be considered an "active farmer";
  - Better taking into account the diversity of EU agriculture, notably through addressing the needs of small scale farmers and taking into account possible economies of scale of large farms.

In order to assess how these objectives can be achieved, the following chapters look at options for the development of direct payments in all areas identified as challenges in chapter 2 and assess their impacts. In chapter 11, at the end of this annex, the options in the different areas are assembled into the three policy scenarios analysed in the Impact Assessment, "adjustment", "integration" and "re-focus".

#### **4. REDISTRIBUTION OF DIRECT PAYMENTS**

The future distribution of direct payments should better reflect the dual role of direct payments for income support and provision of public goods by ensuring a better fit between these policy objectives and the budgetary means available. At the same time, the current distribution will need to be taken into account to avoid major disruptions. Several options for redistribution of direct payments envelopes between Member States can be foreseen:

- An “EU flat rate”: direct payments are distributed on the total potentially eligible hectares across Member States;
- A pragmatic approach: limited adjustment of the existing distribution in order to avoid major disruptions to current DP levels, while setting an EU wide minimum level of per ha payment based on a share of the EU average.
- The use of objective criteria: the EU flat rate is adjusted by objective criteria based on economic, physical and/or or environmental indicators.
- A combination of a pragmatic approach and objective criteria.

These options are elaborated in details in section 4.1 and their impacts at micro level are presented in the subsequent sections. It should be noted that the simulations do not address the issue of the length and modalities of a possible transition to the new distribution which will also depend on the final level of redistribution involved. The calibration of the transition period would not only be of importance for the Member States which would see their national direct payments envelope decreasing but also for the Member States which will benefit from an increase. Indeed, the sometimes important gains on direct payments per hectare in the following options could not only drive up land prices but also prove to be an impediment to structural changes as they could prevent farmers from restructuring, growing and improving the profitability of their farms.

The starting point of simulations is the current level of direct payments per hectare, which is calculated by dividing the total direct payment envelope for each Member State (with phasing in completed for EU12 and modulation taken into account at the level of 2013) with the total potentially eligible area<sup>17</sup> for SPS/SAPS as declared by farmers and communicated by MS to the Commission in the frame of the IACS (claim year 2008).

All simulations on the redistribution of direct payments assume the budget set out in the proposal for the Multi-Annual Financial Framework (MFF)<sup>18</sup> for direct payments. Results of the different options are presented in comparison to the existing national envelopes based on the current distribution of direct payments.

#### **4.1. Redistribution between Member States**

##### EU flat rate

One option arising from the public debate would be to move away from historical references towards an EU wide 'flat rate' (or 'EU average') with the same level of aid per hectare to all farmers in the EU (option called **EU flat rate** in the rest of the annex). For the EU-27 the average level of direct payments, i.e. the EU flat rate would be EUR 267/ha of potentially eligible area (PEA).

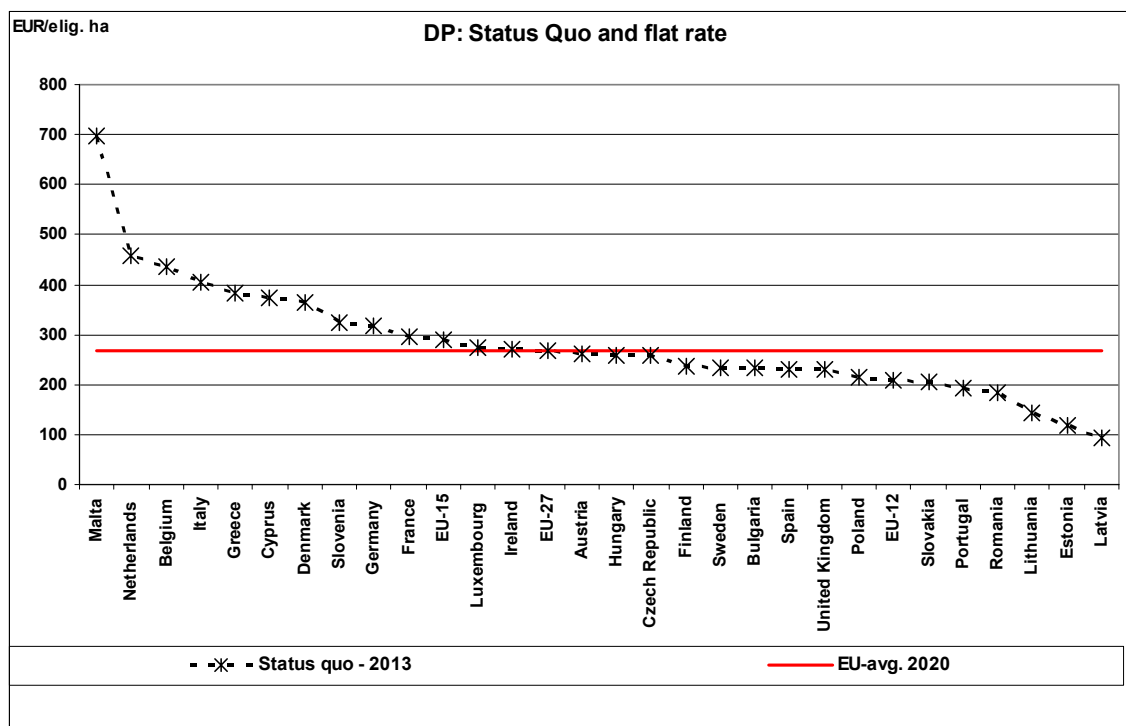
Figure 8 illustrates the level of direct payment in each Member State in terms of €/ha in the Status Quo after the Health Check of the CAP is fully implemented, in contrast to the EU flat rate. It is apparent that existing levels of direct payments in MT, BE, NL, IT, EL, CY, DK and SI are considerably higher, while payments in LV, EE, LT, PT, RO, SK, BG and PL (i.e. mostly new Member States) are considerably lower.

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<sup>17</sup> In Member States using historic model, the agricultural area that is eligible to SPS is higher than the number of entitlements. Thus, all the potentially eligible areas registered in IACS have been taken into account for the calculation presented in the impact assessment.

<sup>18</sup> Communication "A budget for Europe 2020" – Part I and Part II, [http://ec.europa.eu/budget/library/biblio/documents/fin\\_fw1420/MFF\\_COM-2011-500\\_Part\\_I\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/fin_fw1420/MFF_COM-2011-500_Part_I_en.pdf), [http://ec.europa.eu/budget/library/biblio/documents/fin\\_fw1420/MFF\\_COM-2011-500\\_Part\\_II\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/fin_fw1420/MFF_COM-2011-500_Part_II_en.pdf)

**Figure 8: Redistribution between MS - EU flat rate**



Source: DG AGRI

Accordingly, this option would produce significant losses for MT, BE, NL, IT, CY and DK, and substantial gains for LV, EE, LT, PT and RO. In absolute terms, the biggest winners would be RO, PL and ES, while the biggest losers would be IT, DE and FR. The total amount redistributed would reach EUR 4,394 million.

However, as explained in the Communication, a flat rate payment across the EU would fail to reflect differences in the economic and environmental situation in the Member States, since a given level of payment does not have the same effect on income and each hectare does not equally contribute to the provision of environmental public goods. Moreover, the change from current levels of support to the flat rate could be very disruptive in certain cases as indicated above.

Finally, it has to be kept in mind that land is distributed unevenly between farms: in the EU-25 almost 90 % of the land is concentrated in 20 % of the holdings<sup>19</sup>. Therefore a move to an EU flat rate with an even rate of direct payments per hectare would not solve the problem of an uneven distribution of direct payments between farms as this is based on the structural reality of farming in the EU.

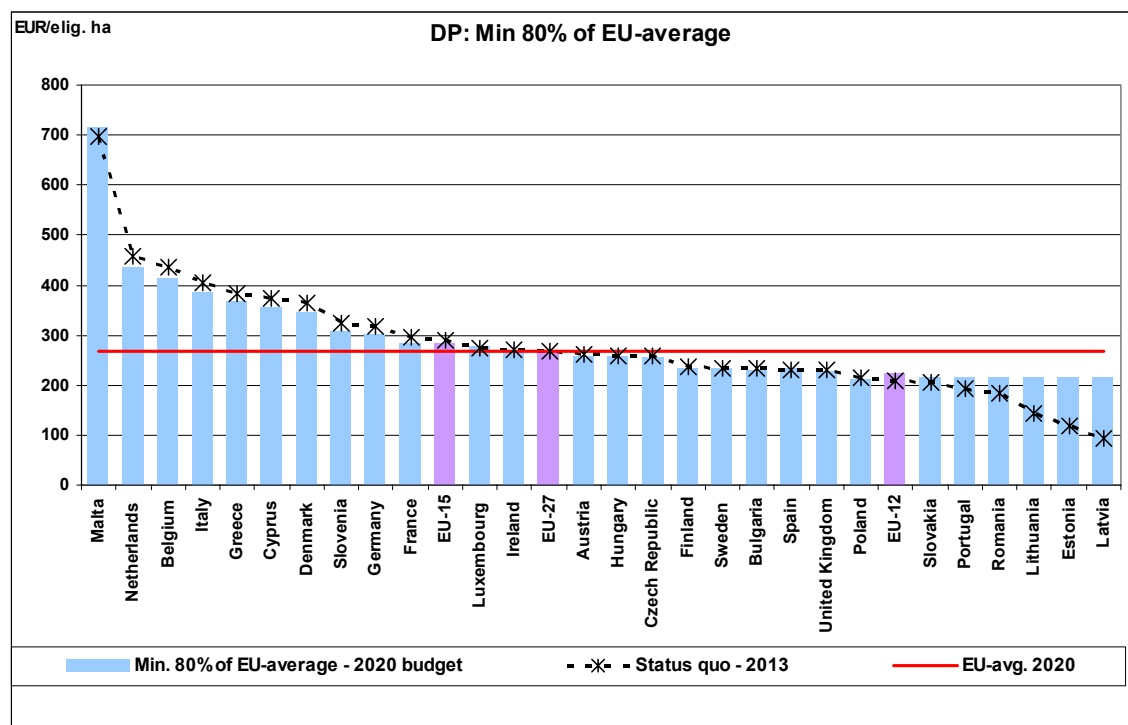
### Pragmatic approach

Another option mentioned in the Communication is to adopt a pragmatic approach, by providing for instance that all Member States get at least 80% of the EU average per

<sup>19</sup> Annex F of the Health Check, I. Impact of a change towards flatter rates of direct payments, Dec. 2007 [http://ec.europa.eu/agriculture/rica/pdf/hc0301\\_impact\\_flatter.pdf](http://ec.europa.eu/agriculture/rica/pdf/hc0301_impact_flatter.pdf)

hectare. The impact of this option (referred to as '**Min80%**' in the rest of the annex) is displayed in Figure 9 below.

**Figure 9: Redistribution between MS - Pragmatic approach with minimum 80% of EU average**



Source: DG AGRI

In the Status Quo distribution, eight Member States are below the 80 % threshold, while eleven Member States are above the EU average. The cost of lifting the per hectare payments of these Member States to 80 % of the EU average (i.e. EUR 213/ha) would be covered on a proportional basis by the eleven Member States that are above the EU average. This would require a reduction of their envelopes, while the envelopes of those Member States who fall between 80 % and 100 % of the EU average would remain unchanged.

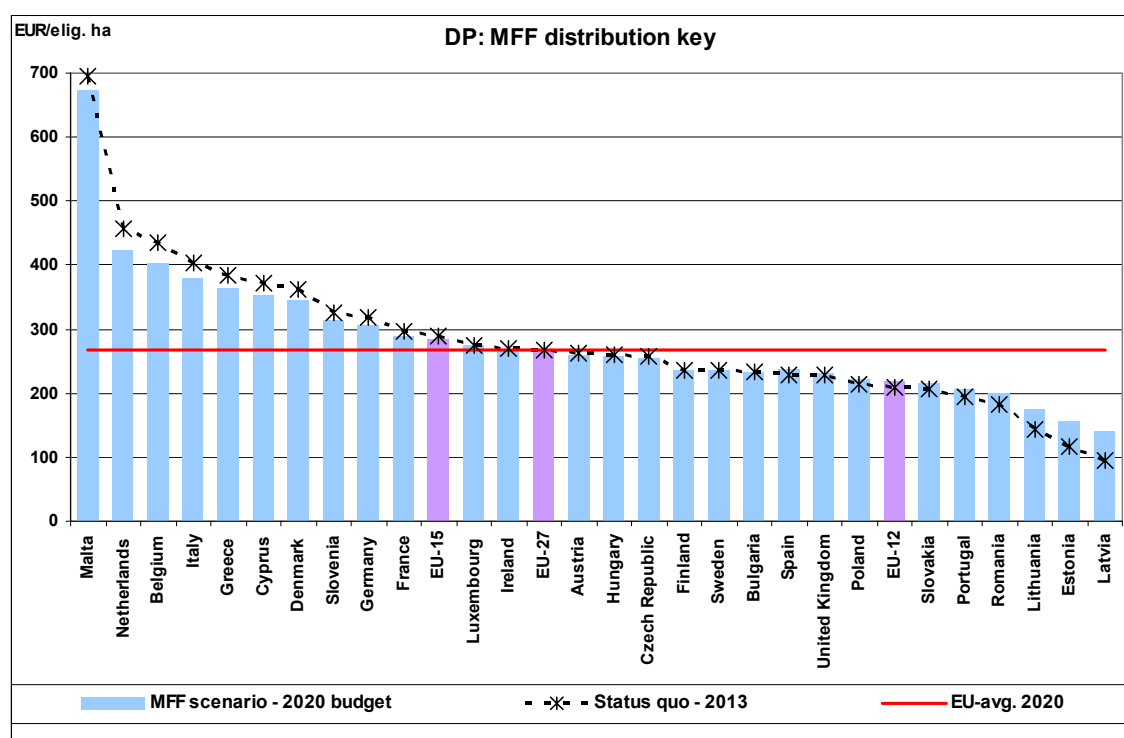
This option would allow addressing the situation of Member States which are significantly below the EU average while mitigating the impact of redistribution on those above the EU average. In absolute terms, the biggest winners would be RO, LV and LT, and the biggest losers FR, DE and IT. The total amount redistributed would come to EUR 847 million.

It could also be envisaged to provide that Member States that currently have direct payments below the level of 90% of the average will close 1/3 of the gap between their current level and the 90% level (option called "**MFF distribution key**" in the rest of the annex as it is the distribution used in the proposal for the MFF), as shown in Figure 10.

This option would provide less convergence for the Member States below 90% of the EU average. Consequently, the cost of convergence to be borne by Member States above the EU average would also be more limited. In absolute terms, the biggest winners would be

again RO, PL and ES, while the biggest losers would be IT, DE and FR. The total amount redistributed would come to EUR 738 million.

**Figure 10: Redistribution between MS - Pragmatic approach with MFF distribution key**



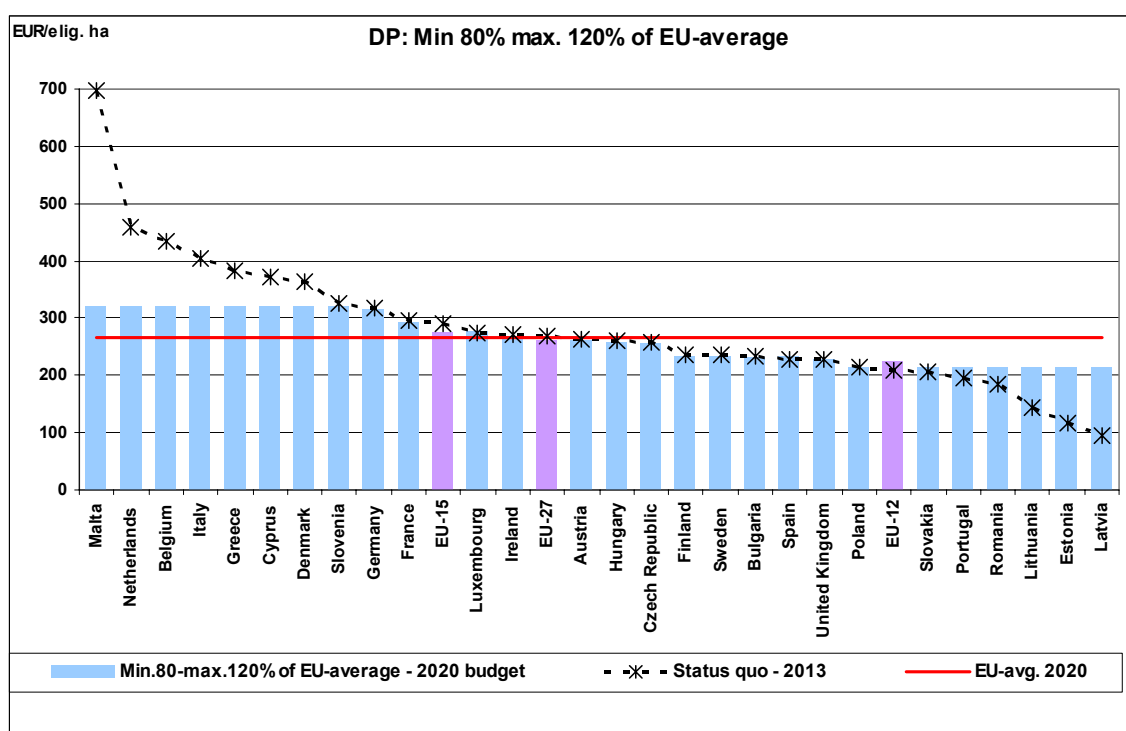
Source: DG AGRI

Alternatively, it may be envisaged to provide that all Member States get at least 80% and that no Member State gets more than 120% of the flat rate (option called "**Tunnel80%-120%**" in the rest of the annex), as shown in Figure 11.

This option would provide a more substantial convergence around the flat rate. However, the cost of convergence would be borne by a more limited number of Member States that would face significant reductions in their envelopes. In absolute terms, the biggest winners would be again RO, LV and LT, while the biggest losers would be IT, EL and the NL. The total amount redistributed would come to EUR 847 million.



**Figure 11: Redistribution between MS - Pragmatic approach with minimum 80% - maximum 120% of EU average**



Source: DG AGRI

### Use of objective criteria

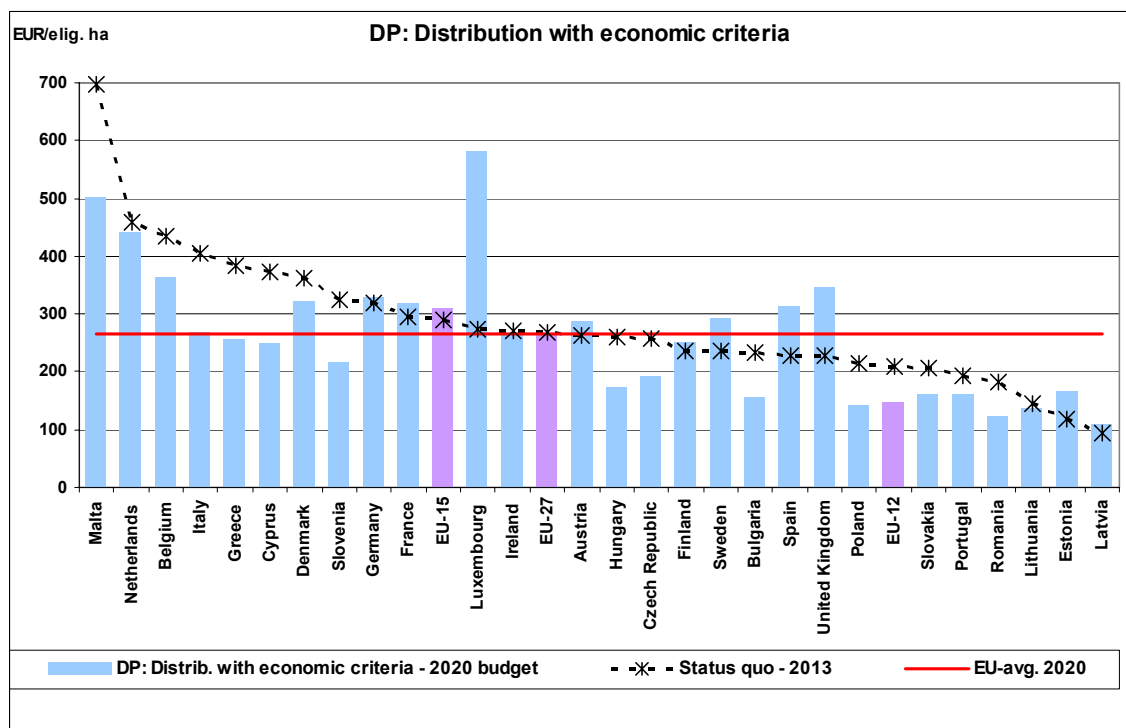
Another option would be to base the distribution on objective criteria that reflect the dual role of direct payments in providing income support and public goods and would thus ensure a more equitable and efficient use of budgetary resources.

Possible objective criteria are very diverse in nature and may provide a very different outcome in terms of redistribution of direct payments on account of the specific economic and environmental situation of each country. The difficulties with reaching agreement on such objective criteria should not be underestimated. A selection of the criteria which have been most discussed in the institutional and public debate is given below:

- For general economic criteria, PPS (purchasing power standard) and GDP/cap: an index is used for the adjustment in relation to the EU average with the Member States with higher GDP/capita (expressed in PPS) receiving higher direct payments/ha. These criteria would reflect disparities in the costs of living between Member States.
- For economic criteria related to agriculture, AWU (annual working unit) and GVA/AWU (gross value added per AWU): comparison to the EU average with the Member States with higher GVA/AWU receiving higher direct payments/ha. These criteria would reflect differences in productivity in the agricultural sectors of Member States.

The result of a redistribution based on a combination of general and agricultural economic criteria is presented in Figure 12.

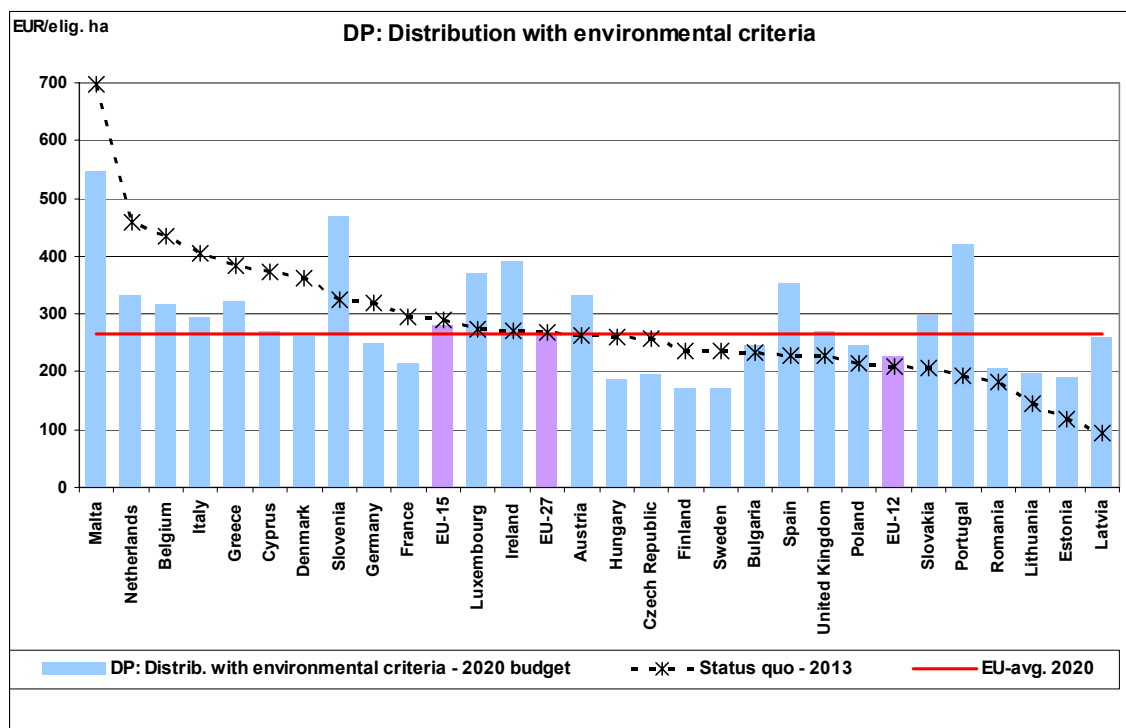
**Figure 12: Redistribution between MS - Economic objective criteria**



Source: DG AGRI

- For the environmental criteria, areas in less favoured areas (LFA), Natura 2000 zones and permanent pasture: The index compares the share of the relevant area in the Member State's total utilised agricultural area (UAA) to the EU average. Thus Member States with a higher share of these types of areas get higher direct payments/ha (see Figure 13). These criteria would reflect disadvantages in particular areas or areas that are particularly important for the provision of public goods.

**Figure 13: Redistribution between MS - Environmental objective criteria**



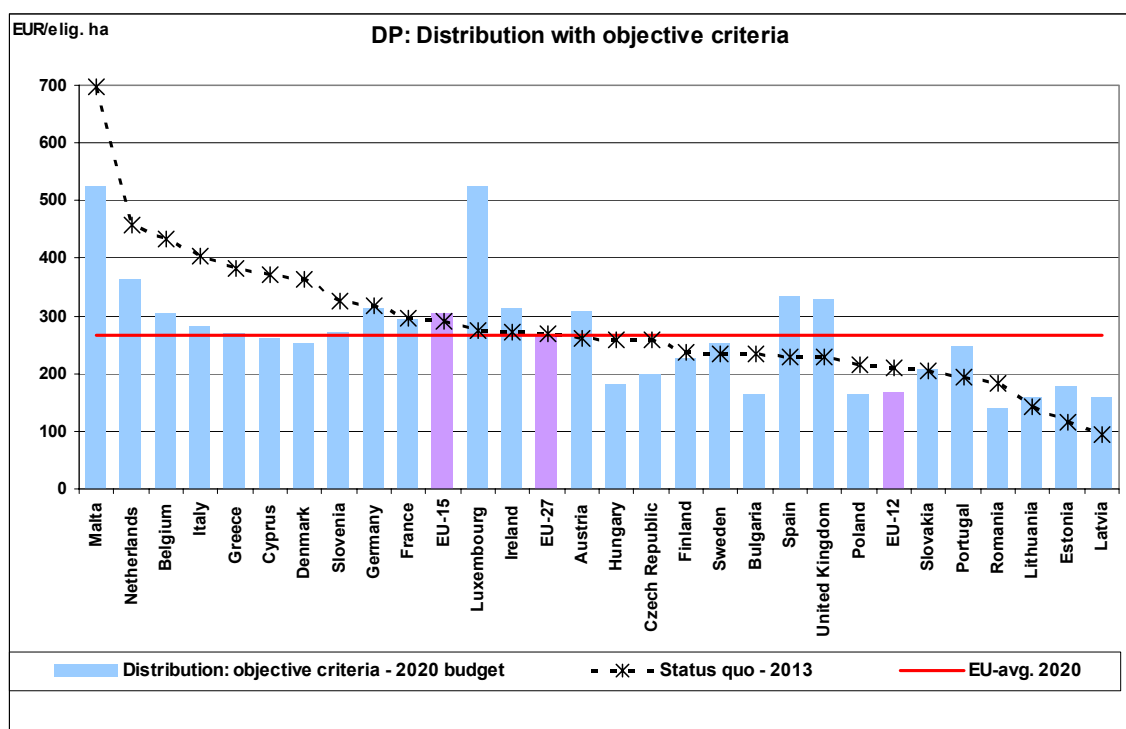
Source: DG AGRI

Another approach would be the combination of economic and environmental objective criteria to adjust the EU flat rate, based on the following formula (using a weight of 2/3 for economic and 1/3 for environmental criteria):

Flat rate  $\times \left[ \frac{2}{3} \times \left[ \left( \frac{2}{3} \text{ GDP/cap} + \frac{1}{3} \text{ GVA/AWU} \right) \right] + \frac{1}{3} \left( \frac{1}{3} \text{ LFA} + \frac{1}{3} \text{ Permanent grassland} + \frac{1}{3} \text{ Natura 2000 area} \right) \right]$ .

The results of using this formula to adjust the flat rate are shown in Figure 14.

**Figure 14: Redistribution between MS - Economic and environmental objective criteria**



Source: DG AGRI

The use of objective criteria giving more weight to economic criteria would accentuate the gap between EU-15 and EU-12 and EU-15 Member States (UK, ES and FR) would most improve their situation in absolute terms. With environmental criteria ES, UK and PT would profit most. With a combination of economic and environmental criteria ES, UK and IE would be the greatest winners while in addition to IT and EL also PL would be among the biggest losers. For the smaller Member States (MT and LU) an *ad hoc* solution would be most likely in any case when using objective criteria, given the extremity of the impact for these Member States.

The main problem with this option is the fact that it would entail massive redistributions (e.g. with the latter formula combining economic and environmental objectives the total amount redistributed comes to EUR 4,516 million which could, however, vary depending on the exact weighting of the different objective criteria taken into account) which is likely to make it politically unacceptable for many Member States to agree to such a redistribution.

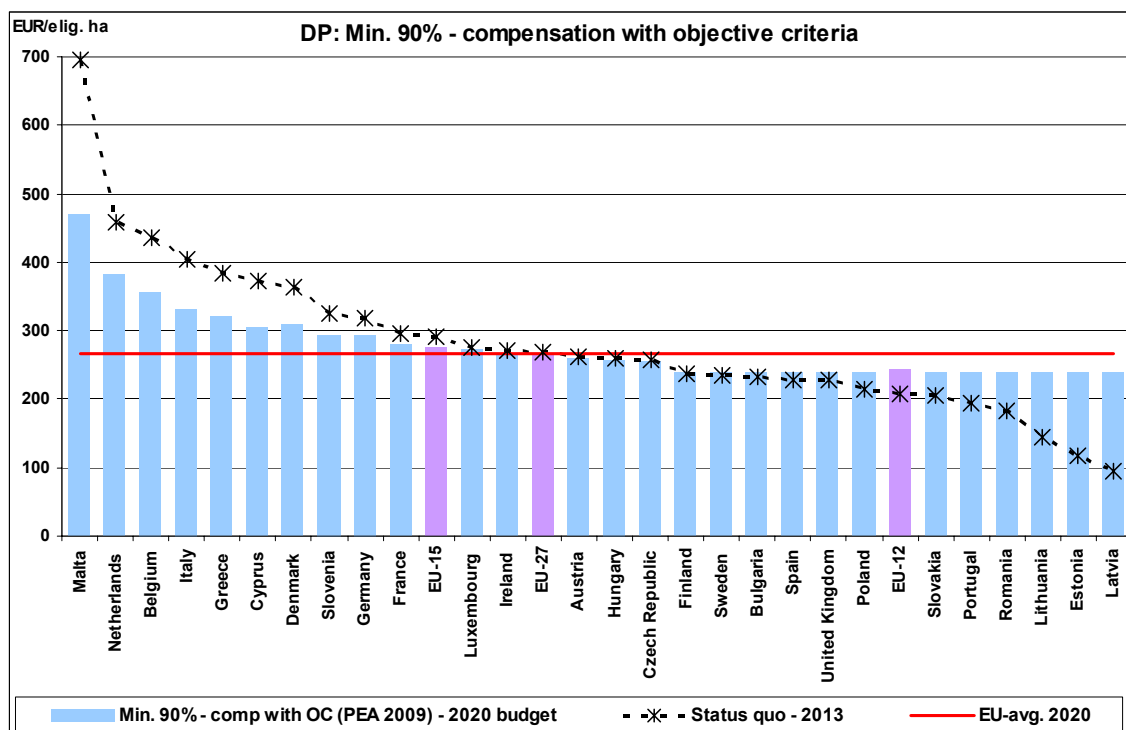
#### Combination of a pragmatic approach with objective criteria

Obviously, there are different ways to combine objective criteria. There are also different ways of combining objective criteria while taking into account the convergence objective and the current distribution, such as:

- to ensure a minimum level of convergence (e.g. that all Member States get at least 90% of the EU average) while using objective criteria to define the level of Member States currently above the EU average (option called "**Min90% with**

**objective criteria"** in the rest of the annex) as shown in Figure 15. The total amount redistributed would be EUR 2,164 million.

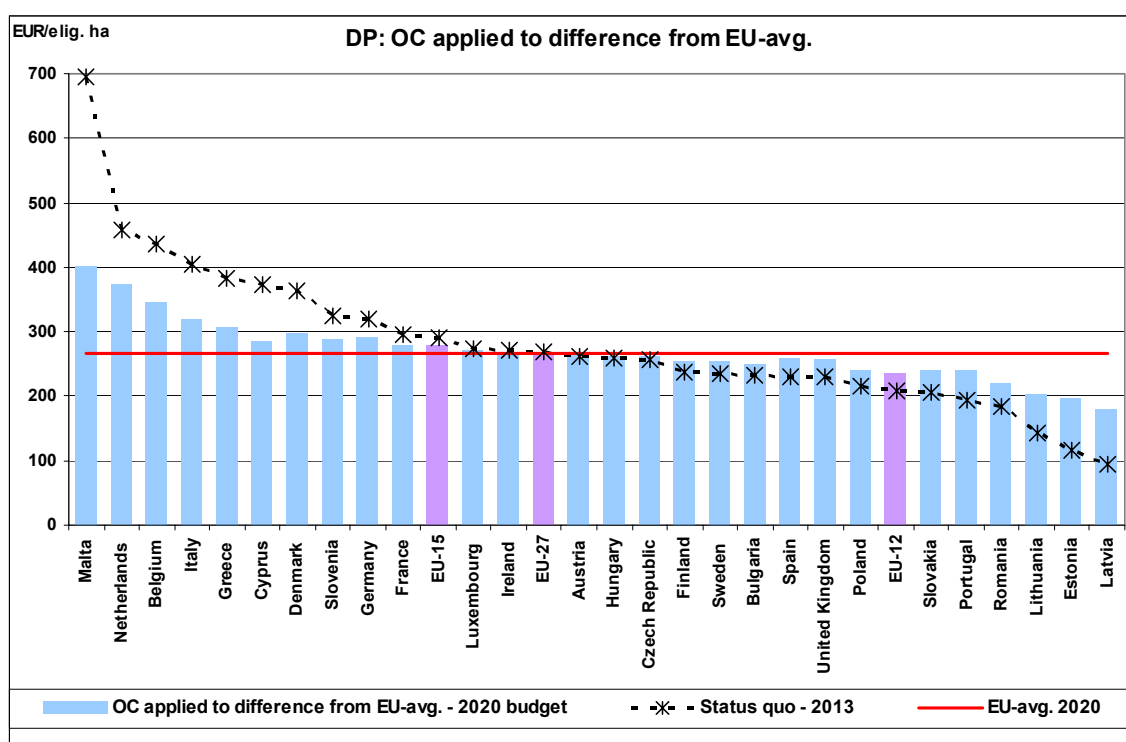
**Figure 15: Redistribution between MS - Pragmatic approach (minimum 90%) with objective criteria**



Source: DG AGRI

- to apply the objective criteria to the difference between the current distribution and the EU average so as to ensure that all Member States that are above the flat rate will be reducing their direct payments but still remain above the flat rate and those that are below the flat rate will be increasing their direct payments but still remain below the flat rate (Figure 16). The total amount redistributed would be EUR 2,534 million.

**Figure 16: Redistribution between MS - Objective criteria applied to difference between Status quo and EU average**



Source: DG AGRI

#### 4.2. Move toward flat rate within Member States or regions

The impact from the redistribution among Member States is further compounded at the level of the farmer with the impact of redistribution within Member States. In this respect, the Communication foresees a uniform rate within each Member State or region, in line with the current regional SPS model.

A region may be defined in accordance with objective and non-discriminatory criteria such as institutional or administrative structure and regional agricultural potential. Any further differentiation for instance based on production types within the region linked to current parameters could cause problems with respect to WTO compatibility.

The move towards a uniform regional model, independently of the options chosen for redistributing the envelopes between Member States, would redistribute direct payments between farmers at least in those Member States which are currently applying an historic model. Indeed, within a region, entitlements would then be spread over all eligible hectares declared in a reference year, including eligible agricultural lands that are currently not covered by entitlements (so-called "naked land") at farmer's level and rebalancing the existing disparities between Member States according to the model of implementation of the SPS chosen.

This implies that the amount of support received at farm level would change considerably compared to the current situation. Farms with a currently high payment level per ha would lose a considerable share of direct payments and farms with comparatively low payment levels would gain substantially. In terms of the impact on different farm types, field crop, mixed and milk farms would lose payments compared to the status quo while payments would increase in grazing livestock, wine and horticulture

farms. As a general matter, a uniform flat rate would reduce support in more productive regions and sectors in favour of more marginal regions.

In addition, the move to a regional model in all Member States is likely to increase the rate of capitalisation of support in land prices. The flexibility for activating entitlements with additional eligible land is reduced due to the existence of only a very limited amount of “naked” land (i.e. eligible land without corresponding entitlements) and the absence of differences in the entitlement level in the regional model<sup>20</sup>. Thus, substantial changes in the payments per hectare, inherent in the "EU flat rate" option and, albeit to a lesser extent, in the other options, may have an impact on farms' asset values (especially land) and affect the profitability of farms, which would in turn influence their access to credit and ability to address existing liabilities.

Whatever the options, the distribution of support between individual farms would remain uneven despite a uniform regional flat rate, as the difference in support per farm would still be determined by the farm areas (number of eligible hectares which would determine the number of entitlements).

### **4.3. Impacts on farm income**

The impact of redistribution of direct payments on farm income has been analysed using FADN data. For the impact assessment at farms' level it has been considered that the entire country is one single region. The following options (see section 4.1 above for details) have been assessed quantitatively in terms of the effects they could have on the income of farms:

- 1) **EU flat rate**
- 2) **Min80%**
- 3) **Min90% with objective criteria**
- 4) **MFF distribution key**

Results are given in percentage of farm income defined as FNVA/AWU compared to a projected Status quo baseline in 2020. Detailed results of simulations of options based on FADN are presented in sub-annex 3C.

#### *4.3.1. Impact at EU level and at MS level*

As shown in Figure 17 and Table 1, whatever the option for redistribution, Member States benefiting from an increase of their national envelope for direct payments see their average farm income increasing. It is the case for EE, LT, LV, PT, RO and SK. The Member States with a current relatively high DP envelope compared to the EU average (BE, IT, DK, GR) see their average farm income decreasing.

An '**EU flat rate**' would lead to massive changes in farmers' incomes in many Member States in both directions. The FADN analysis shows that there would be an increase of

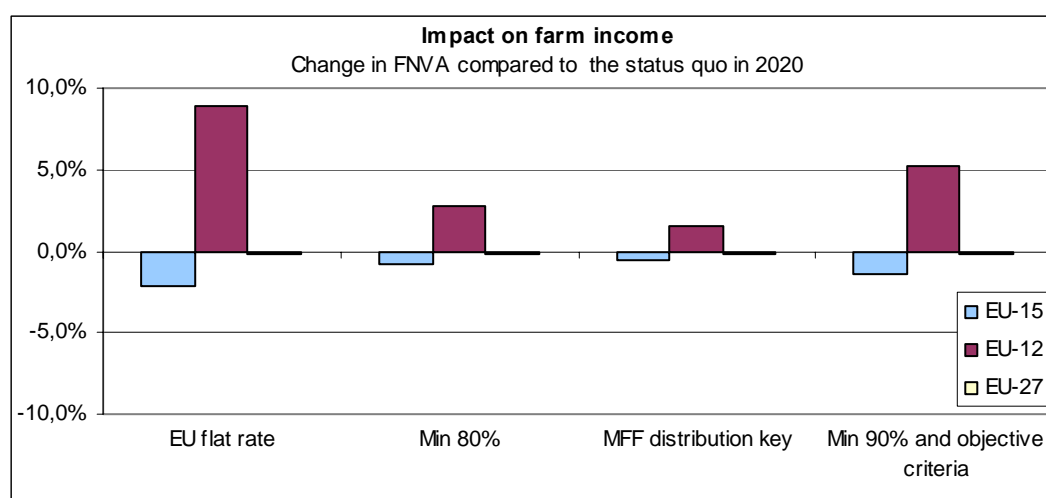
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<sup>20</sup> See Study on the functioning of land markets in the EU Member States under the influence of measures applied under the CAP, CEPS, Swinnen, Ciaian & Kancs, November 2008

8.6 % of farm income in EU-12 and a decrease of 2.1 % in EU-15 compared to the baseline level in 2020. The most affected countries would be DK, GR, BE, SL, DE, IT and CY (between -8 and -5 %), while farm income in EE, LT, LV will benefit the most (by 45 %, 26 % and 53 % respectively) and also PT, RO and SK to a lower extent (between 13% and 16%).

Results for the two alternative options of '**Min 80%**' and '**Min90% with objective criteria**' are quite similar with regard to the winners (mainly EE, LT, LV and to a lower extent PT, RO, SK) and losers whereby impacts are slightly higher in the '**Min90% with objective criteria**' option. With the '**MFF distribution key**' the gains for the Member States profiting most from redistribution are substantially reduced as only a part of the difference between their current level of direct payments and 90% of the EU average is covered.

**Figure 17: Redistribution - Impact on farm income per EU aggregates**



Source: DG AGRI, FADN



**Table 1: Redistribution - Impact on farm income per MS**

	Change in FNVA per AWU in comparison with the status quo in 2020				
	Base	1	2	3	4
	Status quo € per AWU	EU flat rate	Min 80%	MFF	90% and objective criteria
Belgium	62.429	-7%	-1%	-1%	-3%
Bulgaria	9.465	6%	0%	0%	1%
Cyprus	15.251	-6%	-1%	-1%	-4%
Czech Republic	23.473	2%	0%	0%	0%
Denmark	72.352	-8%	-1%	-2%	-5%
Germany	44.864	-5%	-2%	-1%	-3%
Greece	15.597	-8%	-1%	-1%	-4%
Spain	28.953	4%	0%	1%	1%
Estonia	22.281	45%	29%	12%	37%
France	38.819	-4%	-2%	-1%	-2%
Hungary	27.898	-1%	0%	0%	0%
Ireland	27.383	-1%	0%	-1%	-1%
Italy	35.561	-5%	-1%	-1%	-3%
Lithuania	18.162	26%	15%	7%	21%
Luxembourg	50.620	-1%	0%	0%	0%
Latvia	12.912	53%	37%	15%	45%
Malta	31.180	-4%	0%	0%	-2%
Netherlands	68.346	-4%	0%	-1%	-2%
Austria	32.445	0%	0%	0%	0%
Poland	12.893	6%	0%	1%	3%
Portugal	11.077	13%	4%	3%	8%
Romania	4.757	13%	5%	3%	9%
Finland	28.483	4%	0%	0%	1%
Sweden	43.966	6%	0%	0%	1%
Slovakia	20.060	16%	2%	3%	9%
Slovenia	7.849	-7%	-2%	-2%	-4%
United Kingdom	50.196	6%	0%	0%	2%
EU-27	23.751	0%	0%	0%	0%

Source: DG AGRI, FADN

#### 4.3.2. Impact per type of farming at EU level

The impact on income per type of farming is mainly driven by the move toward a flat rate (regional model). Table 2 shows that whatever the option of redistribution, grazing livestock farms (+9.7 % to +10.1 %) and to a lower extent wine farms (+3.1 % to +3.6 %) and horticulture (+0.2 % to +0.3 %) would benefit the most compared to the baseline level. For grazing livestock farming, this is due to the fact that the subsidy level per hectare in this sector is generally rather low in the status quo and will increase with the move to a flat rate especially on the extensive farms with a large area. Wine farms would start receiving direct payments in all Member States whereas it was not the case in the status quo. The impact on farm income is limited, however, because the acreage of wine farms is low in comparison with their output and absolute income level. The same is true for horticulture farms.

**Table 2: Redistribution - Impact per type of farming at EU level**

	Change in FNVA per AWU in comparison with the status quo in 2020				
	Base	1	2	3	4
	Status quo € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
Fieldcrops	25.162	-2,5%	-2,9%	-3,0%	-2,8%
Horticulture	36.197	0,2%	0,3%	0,3%	0,2%
Wine	33.811	3,1%	3,5%	3,6%	3,3%
Other permanent crops	21.006	-1,3%	-0,5%	-0,5%	-1,0%
Milk	29.899	-3,1%	-2,4%	-2,5%	-2,6%
Other grazing livestock	20.688	9,9%	9,9%	10,1%	9,7%
Granivores	23.347	-0,8%	-0,7%	-0,6%	-0,7%
Mixed	14.909	0,2%	-0,9%	-0,8%	-0,2%

Source: DG AGRI, FADN

In the contrary, field crop farms (-2.5 % to -3 %) and milk farms (-2.4 % to -3.1 %) would see a significant decrease in their income.

The income impact on farming system based mainly on grassland would considerably benefit (+11.1 % to +11.4%) from the move to a flat rate whatever the redistribution option as shown in table 3 below.

**Table 3: Redistribution - Impact on grassland based and non-grassland based farms**

	Change in FNVA per AWU in comparison with the status quo in 2020			
	1	2	3	4
	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
Farms with less than 80% grassland	-1,8%	-1,7%	-1,7%	-1,7%
Grassland based farms	11,5%	11,2%	11,2%	11,1%
Total	-0,1%	-0,1%	-0,1%	-0,1%

Source: DG AGRI, FADN

#### 4.3.3. Impact in each Member State per farming type

Table 4 to table 8 below display the double effect of the move toward a flat rate at regional or national level and the redistribution of direct payments between Member States. This effect is expected to be particularly important in Member States with an historical model. In those Member States entitlements have been allocated only to a share of eligible hectares that supported certain production in the reference periods. Thus, irrespective of the method to redistribute direct payments between Member States, moving to a distribution of entitlements to all eligible hectares will have strong negative impacts in particular on those sectors that benefited from the historical models, all the more so in Member States which currently have a high level of direct payments per hectare and which will be affected negatively by the redistribution of direct payments between Member States (e.g. FR). However the effects strongly depend on the main sectors of each Member State.

**Table 4: Redistribution - Impact on fieldcrop farms per MS**

			Change in FNVA per AWU in comparison with the status quo in 2020				
			Base	1	2	3	4
			Status quo € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
H	Belgium	Fieldcrops	74.095	-12%	-3%	-3%	-6%
SAPS	Bulgaria	Fieldcrops	18.008	8%	0%	1%	2%
SAPS	Cyprus	Fieldcrops	24.953	-6%	-1%	-1%	-3%
SAPS	Czech Republic	Fieldcrops	29.237	0%	-2%	-2%	-2%
R	Denmark	Fieldcrops	76.312	-10%	-2%	-2%	-6%
R	Germany	Fieldcrops	51.648	-7%	-2%	-1%	-3%
H	Greece	Fieldcrops	16.689	-13%	-5%	-5%	-9%
H	Spain	Fieldcrops	33.945	5%	0%	1%	1%
SAPS	Estonia	Fieldcrops	27.712	50%	32%	13%	41%
H	France	Fieldcrops	45.497	-15%	-12%	-11%	-13%
SAPS	Hungary	Fieldcrops	44.248	1%	0%	0%	0%
H	Ireland	Fieldcrops	69.740	-8%	-8%	-8%	-8%
H	Italy	Fieldcrops	33.203	-12%	-5%	-5%	-8%
SAPS	Lithuania	Fieldcrops	25.832	28%	16%	7%	22%
R	Luxembourg	Fieldcrops	-	-	-	-	-
SAPS	Latvia	Fieldcrops	19.576	55%	38%	15%	46%
R	Malta	Fieldcrops	26.375	-1%	5%	4%	1%
H	Netherlands	Fieldcrops	86.618	-2%	4%	4%	2%
H	Austria	Fieldcrops	48.428	-6%	-7%	-7%	-7%
SAPS	Poland	Fieldcrops	14.727	6%	-1%	0%	3%
H	Portugal	Fieldcrops	11.596	-15%	-21%	-21%	-18%
SAPS	Romania	Fieldcrops	6.413	16%	6%	4%	11%
R	Finland	Fieldcrops	41.321	7%	-1%	0%	1%
R	Sweden	Fieldcrops	54.587	9%	2%	3%	4%
SAPS	Slovakia	Fieldcrops	27.471	13%	1%	1%	7%
R	Slovenia	Fieldcrops	8.964	-12%	-7%	-7%	-9%
H/R	United Kingdom	Fieldcrops	69.717	-3%	-8%	-8%	-6%
	EU-27	Fieldcrops	25.162	-3%	-3%	-3%	-3%

Source: DG AGRI, FADN

*H = historic model R = regional/hybrid model H/R = historic or regional/hybrid model depending on regions*

**Table 5: Redistribution - Impact on mixed farms per MS**

				Change in FNVA per AWU in comparison with the status quo in 2020			
			Base	1	2	3	4
			Status quo    € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
H	Belgium	Mixed	67.743	-10%	-3%	-3%	-6%
SAPS	Bulgaria	Mixed	6.211	4%	-2%	-1%	0%
SAPS	Cyprus	Mixed		-	-	-	-
SAPS	Czech Republic	Mixed	22.034	3%	1%	1%	1%
R	Denmark	Mixed	63.407	-11%	-2%	-2%	-6%
R	Germany	Mixed	38.262	-7%	-2%	-1%	-3%
H	Greece	Mixed	16.312	-5%	1%	1%	-1%
H	Spain	Mixed	41.130	7%	3%	3%	3%
SAPS	Estonia	Mixed	21.914	50%	32%	13%	41%
H	France	Mixed	34.760	-11%	-8%	-7%	-8%
SAPS	Hungary	Mixed	22.962	2%	0%	0%	0%
H	Ireland	Mixed	34.353	-12%	-12%	-12%	-12%
H	Italy	Mixed	33.557	-7%	0%	0%	-3%
SAPS	Lithuania	Mixed	14.087	27%	16%	7%	21%
R	Luxembourg	Mixed	39.551	2%	3%	3%	3%
SAPS	Latvia	Mixed	10.043	56%	38%	15%	47%
R	Malta	Mixed	15.631	-11%	-6%	-6%	-9%
H	Netherlands	Mixed	36.239	-14%	-3%	-4%	-6%
H	Austria	Mixed	34.827	-4%	-4%	-4%	-4%
SAPS	Poland	Mixed	8.251	9%	-1%	1%	4%
H	Portugal	Mixed	7.945	33%	15%	13%	24%
SAPS	Romania	Mixed	2.708	12%	4%	2%	8%
R	Finland	Mixed	23.265	7%	0%	0%	1%
R	Sweden	Mixed	38.170	8%	1%	1%	2%
SAPS	Slovakia	Mixed	15.805	17%	2%	3%	10%
R	Slovenia	Mixed	5.486	-10%	-3%	-2%	-5%
H/R	United Kingdom	Mixed	44.028	-2%	-10%	-9%	-7%
	EU-27	Mixed	14.909	0%	-1%	-1%	0%

Source: DG AGRI, FADN

*H =historic model R = regional/hybrid model H/R = historic or regional/hybrid model depending on regions*

**Table 6: Redistribution - Impact on other grazing livestock per MS**

				Change in FNVA per AWU in comparison with the status quo in 2020			
			Base	1	2	3	4
			Status quo € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
H	Belgium	Other grazing livestock	51.878	-12%	0%	-1%	-5%
SAPS	Bulgaria	Other grazing livestock	4.667	3%	-2%	-2%	-1%
SAPS	Cyprus	Other grazing livestock	17.463	-9%	-1%	-2%	-6%
SAPS	Czech Republic	Other grazing livestock	25.917	6%	2%	2%	2%
R	Denmark	Other grazing livestock		-	-	-	-
R	Germany	Other grazing livestock	34.138	-8%	-3%	-2%	-4%
H	Greece	Other grazing livestock	17.166	14%	29%	28%	22%
H	Spain	Other grazing livestock	38.349	6%	1%	1%	2%
SAPS	Estonia	Other grazing livestock	14.156	85%	54%	22%	70%
H	France	Other grazing livestock	24.875	18%	22%	24%	22%
SAPS	Hungary	Other grazing livestock	15.083	3%	-2%	-2%	-2%
H	Ireland	Other grazing livestock	15.674	6%	6%	6%	6%
H	Italy	Other grazing livestock	39.671	-3%	6%	5%	2%
SAPS	Lithuania	Other grazing livestock	10.849	38%	22%	10%	30%
R	Luxembourg	Other grazing livestock	47.014	-4%	-3%	-3%	-3%
SAPS	Latvia	Other grazing livestock	14.536	61%	42%	16%	51%
R	Malta	Other grazing livestock		-	-	-	-
H	Netherlands	Other grazing livestock	29.716	-16%	-3%	-4%	-7%
H	Austria	Other grazing livestock	26.522	3%	2%	2%	2%
SAPS	Poland	Other grazing livestock	18.304	5%	0%	1%	3%
H	Portugal	Other grazing livestock	15.936	52%	31%	28%	41%
SAPS	Romania	Other grazing livestock	4.342	12%	4%	2%	8%
R	Finland	Other grazing livestock	15.922	10%	1%	2%	3%
R	Sweden	Other grazing livestock	22.593	15%	1%	2%	4%
SAPS	Slovakia	Other grazing livestock	19.273	20%	4%	5%	12%
R	Slovenia	Other grazing livestock	4.557	-5%	6%	7%	2%
H/R	United Kingdom	Other grazing livestock	27.909	65%	41%	43%	49%
	EU-27	Other grazing livestock	20.688	10%	10%	10%	10%

Source: DG AGRI, FADN

*H =historic model R = regional/hybrid model H/R = historic or regional/hybrid model depending on regions*

**Table 7: Redistribution - Impact on milk farms per MS**

				Change in FNVA per AWU in comparison with the status quo in 2020			
			Base	1	2	3	4
			Status quo    € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
H	Belgium	Milk	70.337	-10%	-3%	-3%	-6%
SAPS	Bulgaria	Milk	6.932	2%	-1%	-1%	-1%
SAPS	Cyprus	Milk		-	-	-	-
SAPS	Czech Republic	Milk	21.372	3%	1%	1%	1%
R	Denmark	Milk	90.265	-7%	-1%	-1%	-4%
R	Germany	Milk	52.719	-5%	-2%	-2%	-3%
H	Greece	Milk		-	-	-	-
H	Spain	Milk	45.890	-8%	-9%	-9%	-9%
SAPS	Estonia	Milk	22.276	35%	23%	10%	29%
H	France	Milk	30.748	-5%	-2%	-1%	-3%
SAPS	Hungary	Milk	24.211	1%	0%	0%	0%
H	Ireland	Milk	52.797	-3%	-3%	-3%	-3%
H	Italy	Milk	54.609	-10%	-6%	-7%	-8%
SAPS	Lithuania	Milk	15.025	23%	13%	6%	18%
R	Luxembourg	Milk	56.929	-1%	0%	0%	-1%
SAPS	Latvia	Milk	10.924	54%	37%	14%	45%
R	Malta	Milk	49.620	-19%	-16%	-16%	-17%
H	Netherlands	Milk	83.731	-12%	-5%	-6%	-7%
H	Austria	Milk	29.663	3%	3%	3%	3%
SAPS	Poland	Milk	16.393	6%	0%	1%	3%
H	Portugal	Milk	16.343	-28%	-31%	-31%	-29%
SAPS	Romania	Milk	4.892	7%	2%	1%	5%
R	Finland	Milk	20.712	4%	0%	0%	0%
R	Sweden	Milk	35.930	0%	-5%	-5%	-4%
SAPS	Slovakia	Milk	17.121	17%	3%	4%	10%
R	Slovenia	Milk	10.224	-13%	-9%	-9%	-11%
H/R	United Kingdom	Milk	56.545	-1%	-5%	-5%	-4%
	EU-27	Milk	29.899	-3%	-2%	-3%	-3%

Source: DG AGRI, FADN

*H =historic model R = regional/hybrid model H/R = historic or regional/hybrid model depending on regions*

**Table 8: Redistribution - Impact on wine farms per MS**

				Change in FNVA per AWU in comparison with the status quo in 2020			
			Base	1	2	3	4
			Status quo € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
SAPS	Bulgaria	Wine	4.013	5%	-1%	0%	1%
SAPS	Cyprus	Wine	-	-	-	-	-
SAPS	Czech Republic	Wine	17.627	1%	0%	0%	0%
R	Germany	Wine	44.546	0%	0%	0%	0%
H	Greece	Wine	16.097	-2%	6%	5%	2%
H	Spain	Wine	25.603	5%	2%	3%	3%
H	France	Wine	53.567	3%	3%	4%	3%
SAPS	Hungary	Wine	934	-6%	-11%	-11%	-11%
H	Italy	Wine	34.649	3%	5%	5%	4%
R	Luxembourg	Wine	48.572	2%	2%	2%	2%
R	Malta	Wine	-	-	-	-	-
H	Austria	Wine	31.508	2%	1%	1%	1%
H	Portugal	Wine	8.455	14%	10%	10%	12%
SAPS	Romania	Wine	9.764	3%	1%	1%	2%
SAPS	Slovakia	Wine	-	-	-	-	-
R	Slovenia	Wine	18.321	4%	5%	5%	5%
	EU-27	Wine	33.811	3%	4%	4%	3%

Source: DG AGRI, FADN

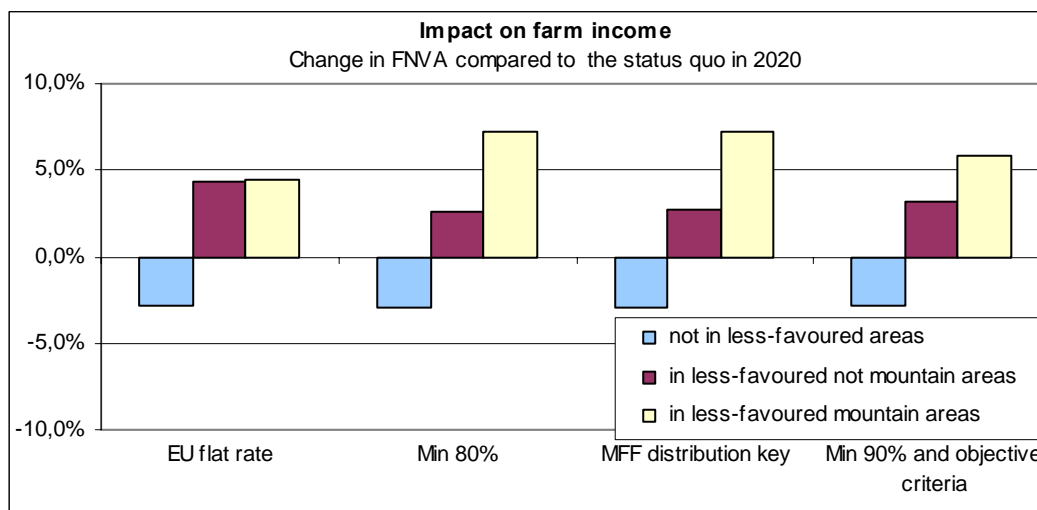
*H* =historic model *R* = regional/hybrid model *H/R* = historic or regional/hybrid model depending on regions

#### 4.3.4. Impact per LFA/non LFA zones

The impact on income of farms located in less favoured areas (see Figure 18) is mainly driven by the move toward a flat rate (regional model)<sup>21</sup>. Simulations show that farm incomes increase in both mountainous and not mountainous LFA and decrease elsewhere. Indeed, past references of production which served as a basis to calculate the value of entitlements are quite low in less favoured areas and in particular in mountain areas where farm size is smaller. The move to a flat rate in each Member States would lead logically to a redistribution of direct payments towards those areas.

<sup>21</sup> It has to be noted that the income increase in mountain areas is higher for the options "Min80%", "Min90% with objective criteria" and "MFF distribution key" (around 7%) than for the "EU flat rate" (around 4.5%). This is due to the fact the "EU flat rate" redistribution option favours Member States where the share of mountain LFA is lower than average.

**Figure 18: Redistribution - Impact per LFA/non LFA zones**



Source: DG AGRI, FADN

#### **4.4. Production and price impacts of move toward flat rate at regional, Member States and EU levels**

A recent study<sup>22</sup> based on the partial equilibrium CAPRI model together with a specific tailed farm group component called CAPRI farm type (CAPRI FT) analyzes the impact of a flat rate for direct payments at regional (NUTS 1), Member State and EU levels (with the level of redistribution and potential impacts increasing in moving to an EU flat rate).

The study shows relatively small production and price impacts. In the EU flat rate scenario, which is the most price responsive, the maximum price increase was for cereals by 1.5 % for the EU-15 and 2.9 % for the EU-10. The small magnitude of the impact is also due to the role of entitlements in limiting land use expansion while allowing for some substitution between grassland and arable land.

Given the small price and production changes, income effects were mainly driven by the redistribution of decoupled payments and to a lesser extent by land use changes.

#### **4.5. Environmental and climate change impacts**

According to the assessment done on FADN data, grazing livestock farms and more generally grassland based types of farming and farms located in LFA would benefit from the move to a flat rate whatever the redistribution option. This would be a favourable outcome for the maintenance of permanent grasslands and the environmental benefits they provide<sup>23</sup>, as well as for the continuation of farming in areas with a high risk of land abandonment, which is in turn positive for biodiversity.

<sup>22</sup> Farm level policy scenario analysis, Final report, 15 March 2011 (IPTs contract no 151582-2009 A08-DE)

<sup>23</sup> See annex 2 on Greening of the CAP and its sub-annexes on "the environmental benefits of permanent grassland" and on "climate change mitigation and adaptation in EU agriculture under the CAP towards 2020 – outline and assessment of policy options to counteract pending hotspots"



As regards the distribution of direct payments envelopes between Member States, only the **"Min90% with objective criteria"** option considers objective criteria of environmental nature in the distribution of support between Member States, which would adjust the payments better to the objective of supporting the delivery of basic public goods in those areas where continuation of farming may be at stake. However, exact effects would depend strongly on the implementation, e.g. the distribution of direct payments between regions in Member States. If no additional environmental performance criteria were linked to direct payments (or at least to a part of the direct payments), the targeting of additional amounts to environmentally sensitive regions could be suboptimal.

#### **4.6. International impacts**

The redistribution of direct payments between Member States and farmers would not affect the classification of EU support at WTO provided that any direct effect on production level is avoided.

#### **4.7. Administrative impacts**

In case the new direct payments system is limited to a uniform regional rate, whatever the options for redistribution, the policy framework would be very much simplified because of the existence of one single model: the SPS regional one.

In the first year of implementation of the new system, there would be administrative burden associated with the redistribution (possibly new distribution of entitlements and/or recalculation of their value) and possibly transition (defining steps for progressive modifications in following years for each farmer). For those Member States currently applying SAPS, the administrative burden associated with the transition to regional SPS would be significant in the first year and is related to the establishment and allocation of entitlements.

### **5. ADDITIONAL INCOME SUPPORT IN AREAS WITH SPECIFIC NATURAL CONSTRAINTS**

The Communication foresees that in order to promote the sustainable development of agriculture in areas with specific natural constraints, the new CAP could provide an additional income support to farmers in such areas in the form of a decoupled area-based payment as a complement to the support given under the Pillar II. This has been confirmed during the consultation process where the respondents have largely expressed that all parts of the EU, including areas with natural handicaps (NHA<sup>24</sup>), shall be part of future growth and development.

As past references of production are used for determining the value of the entitlements there is, on average, a lower level of aid in areas with natural handicaps that are less productive while income needs and provision of public goods in these areas are important.

However, a new payment for farms in areas with natural constraints in Pillar I should not be a duplication of the current NHA scheme in rural development. Indeed, the main

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<sup>24</sup> NHA is often also called LFA (less favoured areas)

purpose of the new Pillar I scheme for areas with specific natural constraints would be to allow Member States to achieve a more equitable distribution of income throughout their agricultural area by targeting a part of income support to farmers whose farming activity and the income derived from it is permanently limited by natural constraints.

While NHA support under the Pillar II (see sub-annex 3D for the current state of play) is only granted to a small percentage of farmers in these areas, the new Pillar I scheme for NHA would be compulsory for Member States and generalised to all farmers located in those areas. In addition, as the risk of land abandonment is extremely diversified throughout the EU and may be of particular relevance in mountain areas, the possibility to mobilise support from different sources will allow Member States to better calibrate the support needed to address this challenge.

An exercise of new delimitation of certain LFA/NHA zones is ongoing. However, the assessment of the potential impacts of the scheme in this Impact Assessment exercise has been based on current LFA/NHA delimitation, not pre-judging the new delimitation mechanisms of LFA/NHA to be used in the future. A qualitative assessment of the main changes between current and future LFA/NHA is done in section 5.2.

It has been shown previously (see section 4.1) that the move to a regional flat rate would already benefit to farms located in LFA/NHA whatever the option of redistribution of direct payments envelopes between Member States. In order to capture the effect of additional income support in NHA through a Pillar I scheme, the assessment in the current section is based on the redistribution option "**MFF distribution key**".

The 2 following two options for implementing additional support in NHA have been assessed:

- 1) EUR 100 for each hectare located in the current LFA;
- 2) EUR 50 for each hectare located in mountain areas and EUR 25 for each hectare located in other LFA areas.

The level of payments for those options have been established taking into account the current maximum level of LFA/NHA payment in Pillar II (maximum is EUR 250/ha in mountain areas and EUR 150/ha in other areas and minimum is EUR 25/ha).

In both options, a maximum of 5% of the national direct payments envelope redistributed as in "**MFF distribution key**" is dedicated to payments to specific natural constraints in Pillar I which means that if the sum of payments is above 5% of the national direct payments envelope the rate per hectare is reduced accordingly.

In addition, in view of assessing the impacts of the redistribution options in a kind of sensitivity analysis, **option 2** above has been applied on two others distribution scenarios of direct payments:

- 3) Status Quo 2020
- 4) Min 90% with objective criteria

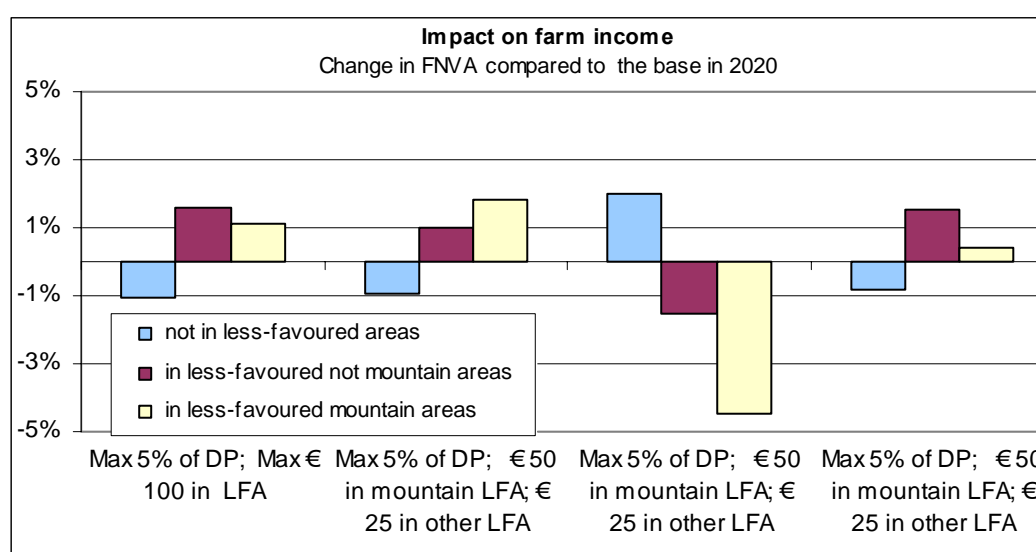
All comparisons are done with the redistribution option "**MFF distribution key**". Details of simulations are in sub-annex 3C.

## 5.1. Impacts on farm income

### 5.1.1. Impact in LFA/non LFA zones

As shown in Figure 19, farms located in LFA/NHA see their income increasing with options 1 (+1.1 % in mountains, +1.6 % in other LFA) and 2 (+1.9 % in mountains, +1% in other LFA) and also with option 4 (+0.4 % in mountains, +1.5 % in other LFA). They are better-off with the **"MFF distribution key"** or the **"Min 90% with objective criteria"** redistribution options than with the **Status quo 2020**. Also the increase in income for mountains is higher in option 2 (compared to option 1) as the rate per hectare in mountains is higher than for other LFA.

**Figure 19: Additional income support in areas with specific natural constraints - Impact in LFA/non LFA zones**



Source: DG AGRI, FADN

It is important to mention that the limitation to 5 % of the national DP envelope dedicated to payments to specific natural constraints in Pillar I leads to a rather small redistribution effect. However, for some Member States depending on their share of agricultural land in LFA/NHA and of the 'new' envelope, 5 % of the envelope may not be enough to apply to full rates per hectare proposed for *option 1* (EUR 100/ha) and *option 2* (EUR 50/ha in mountains and EUR 25/ha in other LFA) in all their LFA/NHA zones. In the simulations done with FADN data, rates of aid have been reduced accordingly but in practice, given the choice left to Member States of narrowing the areas covered by this payment, a solution may be to target zones inside LFA/NHA, where the needs for income support are the highest. Ongoing new delimitation of LFA/NHA may also have an impact.

### 5.1.2. Impacts per farming type

The analysis per farm type reveals that grazing livestock farms and more generally grassland based types of farming (including certain milk farms) would benefit from this new type of aid in addition of the positive effect of the redistribution (**"MFF distribution key"** or **"Min 90% with objective criteria"**) and of the move toward a flat

rate (see Table 9 and Table 10). This is due to the high share of grassland based farms located in LFA/NHA and particularly in mountains.

**Table 9: Additional income support in areas with specific natural constraints - Impact per farm type**

		FNVA per AWU - comparison with the scenario based on the MFF distribution key in 2020				
		Base	Option 1	Option 2	Option 3	Option 4
		MFF distribution key	MFF distribution key	MFF distribution key	Status quo	Min 90% and objective criteria
			Max 5% of DP; Max € 100 in LFA	Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
Fieldcrops						
Horticulture	36.293	0,0%	0,0%	-0,3%	-0,1%	
Wine	35.023	-0,1%	-0,1%	-3,4%	-0,4%	
Other permanent crops	20.896	-0,1%	0,0%	0,5%	-0,5%	
Milk	29.141	0,3%	0,3%	2,8%	0,3%	
Other grazing livestock	22.771	1,1%	1,2%	-7,4%	0,9%	
Granivores	23.210	-0,1%	-0,1%	0,5%	-0,2%	
Mixed	14.789	0,0%	0,0%	0,7%	0,5%	

Source: DG AGRI, FADN

**Table 10: Additional income support in areas with specific natural constraints - Impacts on grassland based and non-grassland based farms**

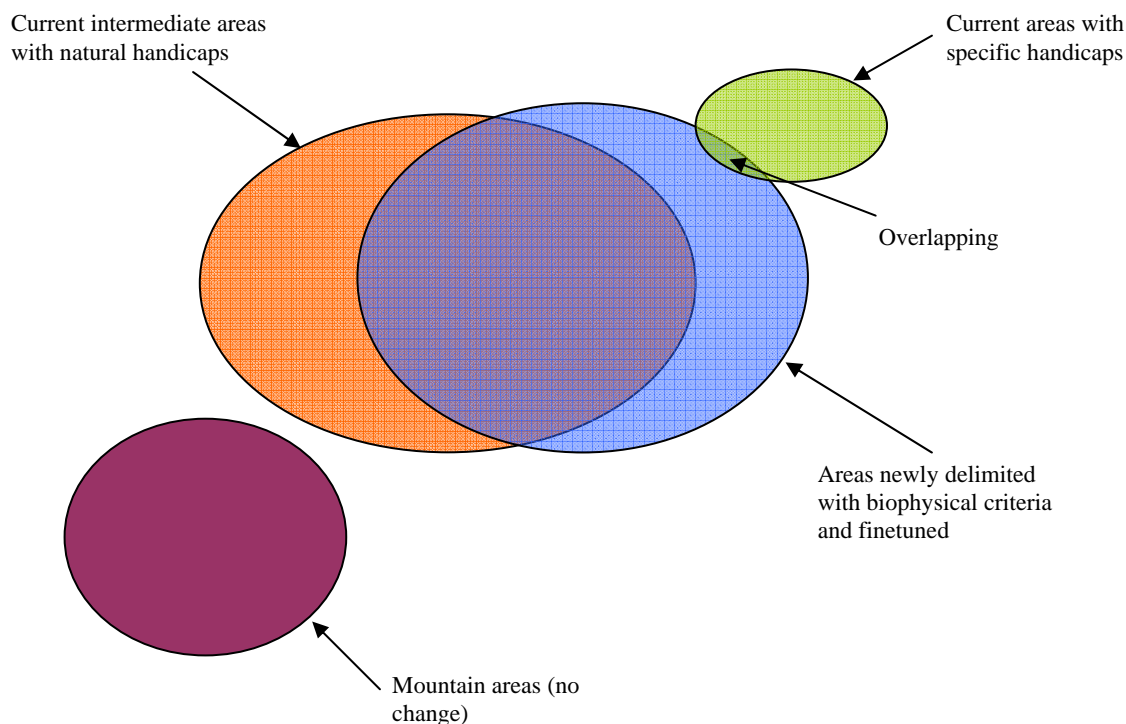
		FNVA per AWU - comparison with the scenario based on the MFF distribution key in 2020			
		Option 1	Option 2	Option 3	Option 4
		MFF distribution key	MFF distribution key	Status quo	Min 90% and objective criteria
		Max 5% of DP; Max € 100 in LFA	Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
Farms with less than 80% grassland		-0,2%	-0,2%	1,5%	-0,2%
Grassland based farms		1,1%	1,2%	-8,3%	1,2%
Total		0,0%	0,0%	0,1%	0,0%

Source: DG AGRI, FADN

## 5.2. Impacts of new delimitation of LFA/NHA

The exercise of new delimitation of LFA/NHA with biophysical criteria has only concerned the intermediate LFA/NHA (thus mountainous LFA will not change). Figure 20 illustrates the outcome of the exercise at EU level.

**Figure 20: Impacts of new delimitation of LFA/NHA**



The purely orange colour represents intermediate LFA which would leave the delimitation, purely blue areas represent areas which would be newly delimited. The results show that globally the size of the areas in LFA/NHA will not considerably change at EU level but particular situations may arise in some Member States where the changes may affect large zones. However at this stage it is not possible to assess those impacts quantitatively.

### **5.3. Environmental and climate change impacts**

Farms located in LFA/NHA would benefit from both the additional income support to areas with specific natural constraints in Pillar I and the move to a flat rate whatever the redistribution option. This would be favourable for the continuation of farming in areas with a high risk of land abandonment, which is in turn positive for biodiversity. In addition, farms in LFA/NHA have generally a high share of permanent pasture. Keeping the distribution of direct payments as in Status quo 2020 would miss the opportunity of addressing the specific needs of LFA areas in Pillar I.

In addition, the possibility to mobilise support from different sources (Pillar I and Pillar II) together with maintenance of lands in Good Agricultural and Environmental Conditions (GAEC) would allow Member States to better calibrate the support needed against risk of land abandonment.

### **5.4. International impacts**

As a decoupled lump sum per hectare payment, support to areas with specific natural constraints in Pillar I would be WTO Green Box compatible.

## **5.5. Administrative impacts**

A new regulation scheme would require monitoring and controls to the new direct payment in Pillar I, in addition to the existing one in Pillar II. However the additional burden would be limited for national administrations if the implementation is based on the existing implementation and control system in place for the Pillar II NHA aid. A management through annual payments would be less administrative burdensome than through entitlements.

## **6. CAPPING OF DIRECT PAYMENTS PER BENEFICIARY**

The issue of distribution of direct payments to the very large and the very small farms have both been mentioned in various ways in the public debate about the CAP and in the consultation process. Indeed, as direct payments are based on areas<sup>25</sup>, larger farms get more direct payments. One can consider that due to economies of scale, granting a level of support per hectare to large farms similar to that received by small farms is not necessarily justified. Introducing some sort of upper ceiling or limitation/reduction for direct payments received by large individual farms could thus be considered in order to improve the distribution of payments between farmers.

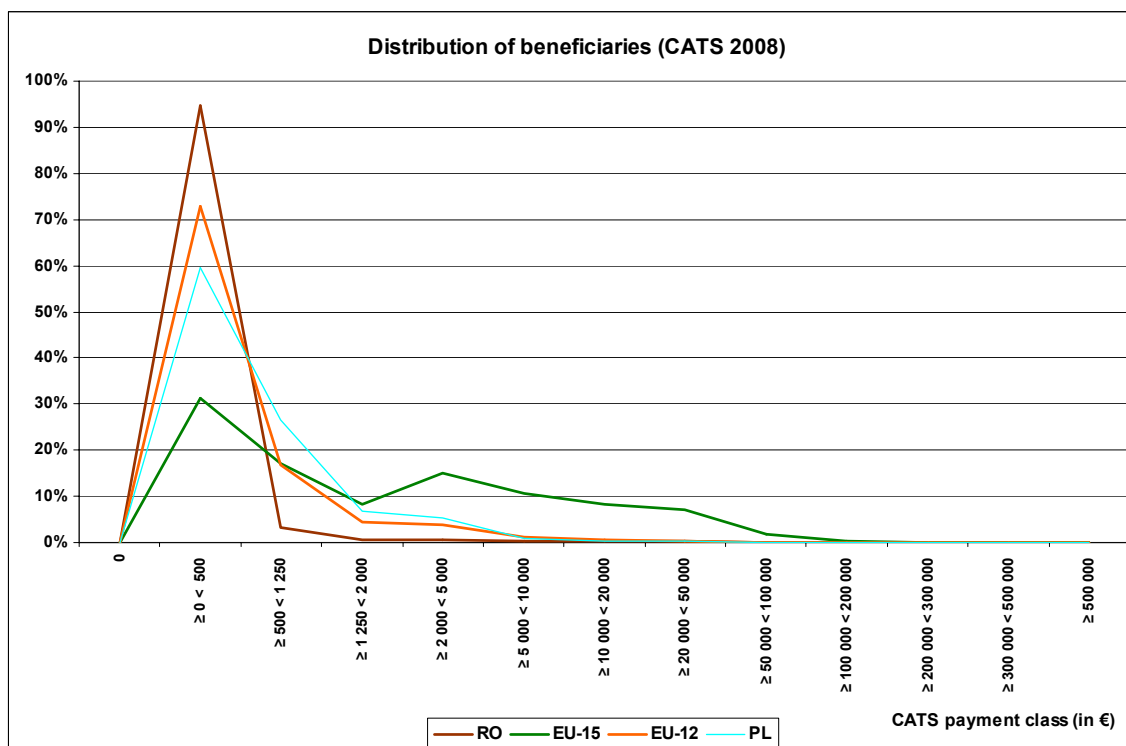
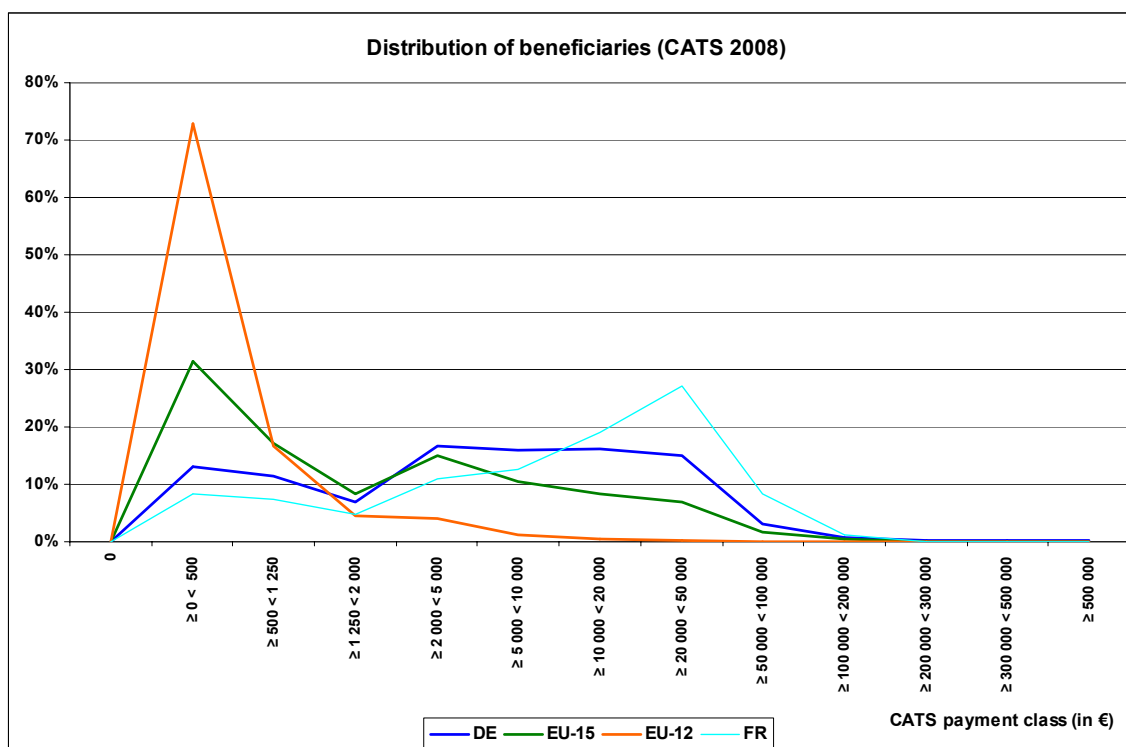
Introducing a fixed ceiling on payments established at EU level can affect the capacity of large farms to employ and invest. Impacts on employment levels in large farm co-operatives, often located in the EU12, could be substantial.

With capping, the capacity of generating funds for other elements of direct payments, as well as the number of farms and Member States affected, depends on where the limits are set, in what form they are fixed and what is the distribution curve of direct payments between farms in the different Member States. As a general rule, the higher the limits, the fewer farms are affected and the effects become concentrated only on the few Member States with large farm structures. To illustrate the wide range of variations between Member States, see Figure 21 on the distribution curves of some selected Member States.

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<sup>25</sup> In fact DP are based on entitlements accompanied with a corresponding number of eligible hectares.

**Figure 21: Distribution of beneficiaries across CATS categories (in % of the respective total number of beneficiaries)**



Source: DG AGRI, CATS data, budget year 2008

A payment cap set at Member States level could better reflect the structure of farms in a given Member States (for instance by taking a multiple of the average amount of direct payments per beneficiary).

The funding released by capping of direct payments should remain in the respective Member State where it could be spent on measures fostering innovation such as knowledge transfer, pilot projects or business development. Thus, capping money would reinforce the comprehensive efforts in favour of promoting innovation as envisaged for the Rural Development Policy. The selection of eligible measures and the approach towards implementation should be consistent with the provision laid down for Rural Development Programmes.

In general, fixed limits for direct payments bear the danger of an artificial “splitting” of farms to circumvent limits. Various legal responses to these problems were addressed. Taking account of different farm structures and ownership arrangements (e.g. co-operatives) would require adjustment to the definition of the "legal person" claiming the payment, which would in itself open the door to circumvention. Preventing any circumvention of the ceilings by the transfer of entitlements or the splitting of holdings would be difficult to implement, require a definition of splitting and would lay the burden of proof on Member State administrations.

Another way of addressing these difficulties would be to attenuate the effect of fixed ceilings by gradually reducing the support level as overall payments to the individual farmer increase, while retaining some support even at high overall payment levels.

A further possibility to mitigate the effects of capping in general on large farms with high employment levels is to foresee an increase of the threshold (or to put it differently, a decrease of the capped amount) for salaried labour intensity (e.g. by increasing the threshold for capping by wages actually paid or by a lump sum of e.g. EUR 15 000/AWU). Such mitigation could be foreseen both for a fixed or a progressive cap, as mentioned in the Communication on the future CAP.

The concept of capping has been addressed in the impact assessment for the Health Check<sup>26</sup>. Whereas the options of fixed individual limits (e.g. no direct payment above EUR 200 000 or EUR 300 000) and progressive ceilings (e.g. payments per beneficiary above EUR 150 000 are reduced by 20 %, above EUR 200 000 by 40 %, and above EUR 250 000 by 75 %; no payment occurs above EUR 300 000 per beneficiary) remain unchanged, the assessment of capping concerning the CAP post-2013 needs to take into account the aforementioned options of redistribution of DP envelopes between Member States.

To assess the effects of the above-mentioned elements, the following options were assessed:

- 1a) Based on redistribution option "**MFF distribution key**", progressive capping with mitigation by 100% wages
- 1b) Based on redistribution option "**MFF distribution key**", progressive capping with mitigation by 50% wages
- 1c) Based on redistribution option "**MFF distribution key**", progressive capping with mitigation by EUR 15 000/AWU

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<sup>26</sup> See Impact assessment note of the Health Check on individual limits for direct payments, [http://ec.europa.eu/agriculture/healthcheck/ia\\_annex/c4\\_en.pdf](http://ec.europa.eu/agriculture/healthcheck/ia_annex/c4_en.pdf)



- 2) Based on redistribution option "**MFF distribution key**", fixed ceiling of EUR 200 000 with mitigation by 100% wages
- 3) Based on redistribution option "**MFF distribution key**", fixed ceiling of EUR 300 000 with mitigation by 100% wages
- 4) Based on redistribution option "**Status quo 2020**", progressive capping with mitigation by 100% wages (comparable to 1a)
- 5) Based on redistribution option "**Min 90% with objective criteria**", progressive capping with mitigation by 100% wages (comparable to 1a)

The quantitative impacts assessed are twofold: the amount generated by capping and the impact on farm income.

## 6.1. Amounts resulting from capping

### 6.1.1. Per Member State

Table 11 displays the amounts resulting from capping in the different options as a percentage of full national DP envelope following redistribution at Member State and aggregate EU-27 level, and the amount resulting from capping in absolute value at the EU level.

The results indicate that capping would release for the EU-27 between EUR 278 million for *option 4* (capping with **Status Quo** redistribution) and EUR 835 million for *option 1b* (capping with **MFF distribution key** redistribution). This represents between 0.6% and 1.9% of the total amount of direct payments at EU level which is quite low compared to the current amount resulting from modulation (around EUR 3 billions for budget year 2013). This is due to the thresholds of capping which affect only a limited number of farms in comparison to the modulation as only farms with very high direct payment levels are concerned. As a consequence capping would really affect very few countries where large farms play a big role<sup>27</sup>: mainly BG and UK and to a lower extent HU, SK and RO while some Member States would not be affected at all like BE, CY, IE, LU, MT, AT, FI, SL, FR or almost not affected like PL, SE, PT.

The different mitigation options influence the capping quite differently depending on the level of wages in the different Member States. Thus, mitigation by a lump sum of EUR 15 000/AWU is more favorable in BG, RO and SK and to a lower extent in LT and LV where it is assumed that the lump sum of EUR 15 000/AWU is quite high compared to the real wages. In the contrary, using 100 % wages is more favorable in DK, DE, and to a lower extent in UK where it is assumed that the wages are quite high. The use of 50 % wages as a mitigation factor is increasing the capped amounts in all Member States compared to the two alternative mitigation factors.

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<sup>27</sup> The FADN is a sample survey. As the capping concerns only a very limited number of very large farms it cannot be always guaranteed that this type of large farms is well represented in all Member States. Thus, the figures provided should be considered as indicative. This could explain the fact that GR is among the Member States strongly affected.

Note, in this respect, that these amounts are calculated in a simulated 2020 situation while the application of capping during the transition period for convergence of direct payments may affect farms differently.

**Table 11: Amounts capped per Member State**

	Share of amounts capped in total pillar 1 payments (total before capping) - %						
	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	Status quo	Min 90% and objective criteria
	1a	1b	1c	2	3	4	5
	Progressive capping with mitigation by 100% wages	Progressive capping with mitigation by 50% wages	Progressive capping with mitigation by 15000€/AWU	fixed ceiling of 200 thousands € with mitigation by 100% wages	fixed ceiling of 300 thousands € with mitigation by 100% wages	1a with status quo	1a with Min 90% and objective criteria
Belgium	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Bulgaria	9,8%	13,1%	1,9%	11,9%	5,4%	8,9%	10,4%
Cyprus	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Czech Republic	0,4%	4,2%	0,5%	0,5%	0,1%	0,5%	0,4%
Denmark	0,2%	0,6%	0,7%	0,2%	0,0%	0,2%	0,1%
Germany	0,2%	1,7%	2,1%	0,3%	0,1%	0,1%	0,2%
Greece	4,0%	4,1%	4,0%	4,7%	2,8%	0,0%	3,4%
Spain	1,5%	1,6%	1,5%	1,7%	0,7%	0,3%	1,5%
Estonia	0,0%	0,3%	0,0%	0,0%	0,0%	0,0%	0,8%
France	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Hungary	2,6%	5,9%	2,3%	2,9%	1,8%	2,3%	2,6%
Ireland	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Italy	0,1%	0,3%	0,2%	0,1%	0,0%	2,3%	0,1%
Lithuania	0,4%	0,7%	0,0%	0,5%	0,2%	0,2%	0,9%
Luxembourg	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Latvia	0,0%	1,0%	0,1%	0,0%	0,0%	0,0%	1,8%
Malta	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Netherlands	0,0%	0,0%	0,0%	0,0%	0,0%	0,1%	0,0%
Austria	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Poland	0,1%	0,5%	0,1%	0,1%	0,0%	0,1%	0,2%
Portugal	0,1%	0,2%	0,1%	0,1%	0,0%	0,2%	0,2%
Romania	2,9%	4,1%	1,0%	3,3%	1,7%	1,9%	4,2%
Finland	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Sweden	0,0%	0,1%	0,1%	0,0%	0,0%	0,0%	0,0%
Slovakia	3,1%	9,0%	1,8%	3,7%	1,7%	2,4%	4,3%
Slovenia	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
United Kingdom	5,2%	5,4%	5,5%	5,7%	3,8%	0,1%	5,4%
EU-27	1,3%	1,9%	1,3%	1,5%	0,8%	0,6%	1,4%

Source: DG AGRI, FADN

### 6.1.2. Per farming type

Table 12 shows which farming types are the most affected by capping. It expresses for each farming type the amounts resulting from capping in the different options as a percentage of total direct payment envelope at EU level (% in the table are comparable with each other).

Unsurprisingly, field crop farms which receive the bulk of direct payment are affected by capping in all scenarios.

Grazing livestock specialized farms which currently receive little subsidies compared to their large area will benefit from the move toward a flat rate at regional or national level and get a higher share of direct payments while labour will stay the same. Thus it is quite logical that these farms will be affected the most by capping in all options based on

'MFF distribution key' or 'Min 90% with objective criteria' but much less in the Status Quo.

**Table 12: Amounts capped per farming type**

	Share of amounts capped in total pillar 1 payments (total before capping) - %						
	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	Status quo	Min 90% and objective criteria
	1a	1b	1c	2	3	4	5
	Progressive capping with mitigation by 100% wages	Progressive capping with mitigation by 50% wages	Progressive capping with mitigation by 15000€/AWU	fixed ceiling of 200 thousands € with mitigation by 100% wages	fixed ceiling of 300 thousands € with mitigation by 100% wages	1a with status quo	1a with Min 90% and objective criteria
(1) Fieldcrops	0,50%	0,98%	0,48%	0,59%	0,27%	0,43%	0,65%
(2) Horticulture	0,00%	0,01%	0,00%	0,00%	0,00%	0,03%	0,00%
(3) Wine	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
(4) Other permanent crops	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
(5) Milk	0,00%	0,02%	0,00%	0,00%	0,00%	0,00%	0,00%
(6) Other grazing livestock	0,77%	0,80%	0,78%	0,87%	0,53%	0,13%	0,76%
(7) Granivores	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
(8) Mixed	0,03%	0,12%	0,06%	0,04%	0,02%	0,04%	0,04%
All types	1,31%	1,93%	1,32%	1,49%	0,82%	0,64%	1,45%

Source: DG AGRI, FADN

## 6.2. Impact of capping on income

### 6.2.1. Per Member States

Table 13 expresses at Member States level the impact of capping on farm income (FNVA/AWU). All options are compared to the farm income in a redistribution scenario "MFF distribution key" without capping.

On average for the EU27 average income per unit of work would be little affected (between -0 % and -0.5 %), but there are important variations for some Member States depending on the options.

In option 1b where the mitigation by labor is the lowest (50% wages), countries most affected would be SK and BG but also CZ, HU, RO which is not surprising at they have a high share of large farms, cooperatives, etc.

Options 4 and 5 differ from option 1a because of the redistribution options used. In option 4, with the current distribution of direct payments between Member States (**Status Quo**), simulations show that some countries would lose much in terms of average income (EE, LV, LT, PT, RO, SK), but this is mainly due to the absence of redistribution of direct payments in that option (**Status quo**) and not to capping.

**Table 13: Capping – Impacts on income per Member State**

	Income 2020 FNVA/AWU	% of change of 2020 income in comparison with scenario 0						
IA scenario	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	Status quo	Min 90% and objective criteria
Capping scenario - number	0	1a	1b	1c	2	3	4	5
Capping scenario - description	no capping	Progressive capping with mitigation by 100%wages	Progressive capping with mitigation by 50%wages	Progressive capping with mitigation by 15000€AWU	fixed ceiling of 200 thousands € with mitigation by 100%wages	fixed ceiling of 300 thousands € with mitigation by 100%wages	1a with status quo	1a with Min 90% and objective criteria
Belgium	61.583	0,0%	0,0%	0,0%	0,0%	0,0%	1,4%	-2,1%
Bulgaria	9.470	-3,8%	-5,1%	-0,7%	-4,6%	-2,1%	-3,5%	-3,1%
Cyprus	15.064	0,0%	0,0%	0,0%	0,0%	0,0%	1,2%	-2,8%
Czech Republic	23.372	-0,2%	-2,0%	-0,2%	-0,2%	-0,1%	0,2%	-0,2%
Denmark	71.177	0,0%	-0,2%	-0,2%	-0,1%	0,0%	1,6%	-3,1%
Germany	44.364	-0,1%	-0,5%	-0,6%	-0,1%	0,0%	1,1%	-1,4%
Greece	15.413	-1,1%	-1,1%	-1,1%	-1,3%	-0,8%	1,2%	-3,8%
Spain	29.192	-0,3%	-0,3%	-0,3%	-0,4%	-0,2%	-0,9%	-0,1%
Estonia	24.949	0,0%	-0,1%	0,0%	0,0%	0,0%	-10,7%	22,0%
France	38.466	0,0%	0,0%	0,0%	0,0%	0,0%	0,9%	-1,1%
Hungary	27.795	-1,0%	-2,3%	-0,9%	-1,2%	-0,7%	-0,5%	-1,0%
Ireland	27.237	0,0%	0,0%	0,0%	0,0%	0,0%	0,5%	-0,1%
Italy	35.189	0,0%	0,0%	0,0%	0,0%	0,0%	0,7%	-1,9%
Lithuania	19.345	-0,1%	-0,2%	0,0%	-0,2%	-0,1%	-6,2%	12,7%
Luxembourg	50.691	0,0%	0,0%	0,0%	0,0%	0,0%	-0,1%	-0,3%
Latvia	14.786	0,0%	-0,4%	0,0%	0,0%	0,0%	-12,7%	25,3%
Malta	31.121	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	-1,7%
Netherlands	67.857	0,0%	0,0%	0,0%	0,0%	0,0%	0,7%	-0,8%
Austria	32.384	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	0,0%
Poland	12.991	0,0%	-0,1%	0,0%	0,0%	0,0%	-0,8%	2,1%
Portugal	11.357	0,0%	-0,1%	0,0%	0,0%	0,0%	-2,5%	5,7%
Romania	4.882	-0,9%	-1,2%	-0,3%	-1,0%	-0,5%	-3,1%	4,4%
Finland	28.456	0,0%	0,0%	0,0%	0,0%	0,0%	0,1%	0,6%
Sweden	43.959	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,9%
Slovakia	20.563	-1,6%	-4,9%	-1,0%	-2,0%	-0,9%	-3,7%	3,6%
Slovenia	7.727	0,0%	0,0%	0,0%	0,0%	0,0%	1,6%	-2,4%
United Kingdom	50.363	-2,0%	-2,1%	-2,1%	-2,2%	-1,4%	-0,4%	-0,6%
EU-27	23.717	-0,4%	-0,5%	-0,4%	-0,4%	-0,2%	0,0%	-0,4%

Source: DG AGRI, FADN

### 6.2.2. Per farming type

Table 14 displays the impact on farm types. In all options, the most affected farming type as regards farm income would be grazing livestock. This has to be seen in the context of the redistribution of direct payments which leads to an increase in direct payments for this type of farms.

In option 4, with the status quo, some farming types would lose much in terms of average income (wine, grazing livestock), but this is mainly due to the absence of redistribution of direct payments in that option (**Status quo**) than to capping.

**Table 14: Capping – Impacts of income on farm types**

	Income 2020 FNVA/AWU	% of change of 2020 income in comparison with scenario 0						
IA scenario	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key	Status quo	Min 90% and objective criteria
Capping scenario - number	0	1a	1b	1c	2	3	4	5
Capping scenario - description	no capping	Progressive capping with mitigation by 100%wages	Progressive capping with mitigation by 50%wages	Progressive capping with mitigation by 15000€/AWU	fixed ceiling of 200 thousands € with mitigation by 100%wages	fixed ceiling of 300 thousands € with mitigation by 100%wages	1a with status quo	1a with Min 90% and objective criteria
(1) Fieldcrops	24.404	-0,5%	-0,9%	-0,4%	-0,5%	-0,2%	2,7%	-0,4%
(2) Horticulture	36.293	0,0%	0,0%	0,0%	0,0%	0,0%	-0,3%	0,0%
(3) Wine	35.023	0,0%	0,0%	0,0%	0,0%	0,0%	-3,5%	-0,3%
(4) Other permanent cr	20.896	0,0%	0,0%	0,0%	0,0%	0,0%	0,5%	-0,5%
(5) Milk	29.141	0,0%	0,0%	0,0%	0,0%	0,0%	2,6%	0,0%
(6) Other grazing livest	22.771	-1,8%	-1,9%	-1,9%	-2,1%	-1,3%	-9,5%	-2,1%
(7) Granivores	23.210	0,0%	0,0%	0,0%	0,0%	0,0%	0,6%	-0,1%
(8) Mixed	14.789	-0,1%	-0,3%	-0,1%	-0,1%	-0,1%	0,7%	0,5%
All types	23.717	-0,4%	-0,5%	-0,4%	-0,4%	-0,2%	0,0%	-0,4%

Source: DG AGRI, FADN

### 6.3. Environmental and climate change impacts

Whatever the option, capping has no direct effect on the environment and on climate change. It is more the use of capped funds which may have an impact.

### 6.4. International impact

Capping would be neutral as regards WTO aspects.

### 6.5. Administrative impacts

Provisions on capping, especially those providing for mitigation of capping for large farmers with high employment and those related to the artificial conditions created to avoid capping (artificial "splitting") will be complex to draft and to implement/control or enforce by Member States. For the farmers, the capping system will be burdensome as more information and supporting documents will be required to "prove" the right to mitigation.

## 7. SPECIFIC SUPPORT SCHEME FOR SMALL FARMERS

The EU agricultural sector is characterised by a very high number of small farms (more than 70 % of farms have less than 5 ha). These farms are heterogeneous with respect to socio-economic characteristics of farm holders, the farm asset base, the availability of non-farm incomes, and therefore their capacity to stay or become viable and flourish.

Many small farms may be unprofitable and uncompetitive from an economic perspective. Yet, they are of crucial social importance in certain Member States and rural regions where they make a significant contribution to employment, to the maintenance of viable areas and to cultural heritage.

Furthermore, small farms are important for the provision of public goods. Practices applied by small-scale farmers vary a lot across the EU but generally small farms play an important role in maintaining a varied landscape with a diverse pattern of perennial,

natural and planted vegetation. This variety, when accompanied by the presence of retained landscape features such as field margins, hedgerows, stonewalls, meadows, small woods and watercourses, is valuable for biodiversity through ensuring connectivity between semi-natural habitats and cultivated areas. It also contributes to the resilience of the landscape in the face of climate change.

In a context of globalisation and liberalisation, with volatile commodity prices, affecting both input costs and output revenues, small farmers have come under renewed pressure, including limited financial resources for investments and difficulties with access to credit as well as high transaction costs and poor bargaining power, resulting in limited market access.

In the face of these pressures on the one hand, and the important contribution of small farms to social and environmental objectives on the other, support structures need to be in place that allow small farms to survive and develop. Although at present, there are already some rules aimed at relieving smaller structures and Member States administrations from some administrative costs related to cross compliance (e.g. with respect to the *de minimis* rule or hygiene regulation), the administrative burden on small farmers is in general disproportionately high in relation to the amount of support they receive.

A specific scheme for supporting small farmers would acknowledge the contribution such farms make to rural areas and the environment. It could allow small farms to restructure, diversify and increase their competitiveness, e.g. by exploring new local market opportunities and providing specific regional products. To achieve this, the scheme would have to be designed in a way to either promote competitiveness, development and structural change or allow small farmers to choose their development path (e.g. maintaining local small-scale production) in order to narrow the income gap with larger structures. This specific scheme would also make it possible to cut red tape by simplifying administrative procedures for farmers as well as for national administrations.

However, a support scheme for small farmers within the first pillar would only offer limited possibilities of targeting or imposing requirements in terms of e.g. development capacity, investments, or the commitment to continue farming. This is why it is important to grant it in combination with more targeted support through Rural Development policy, focusing on the competitiveness of farms.

The purpose of a small farmer scheme in the first pillar would thus be to provide for general support to small farms in the form of a higher level of direct payments while simplifying the management of the scheme at farm and at Member States level (without imposing any specific request on the development strategy of the farm). This could be done by introducing a single payment at farm level that replaces all other elements of the direct payment (i.e. the basic rate, the payment for natural constraints, coupled payments and the greening component). This higher payment could either consist in:

- The attribution of a fixed EU-wide support (lump-sum) in addition to the "normal" payment to farmers below a threshold. In that case, there is a risk that farmers just below the threshold may receive a higher level of direct payment compared to the ones just above the threshold who would not be entitled to the specific lump-sum for small farmers.

- The granting of a lump-sum payment corresponding to a pre-determined threshold. However, this could lead to grant a high "bonus" to those with the lowest payments compared to the ones that are just below the threshold.
- An increase of direct payments by progressive percentages (the lower the payment below the threshold, the higher the percentage – possibility of bands). This would assume setting up bands under the threshold to the limit of which the payment of the farmers falling in the band would be completed. This option would mitigate the concerns of the above option by completing only to the limit of the band but it would be complicated to apply.

As regards the financing of the scheme, it should not put at risk the competitiveness of other farms by using a disproportionate share of the total direct payment envelope. Several options could be envisaged: either through a share (e.g. 5%) of the national envelope for direct payments of each Member States or through the results of capping generated in the same Member States. The latter could be an intuitively appealing solution as it would link the distribution problems at both end of the farm spectrum. However, this would result in a financial mismatch between the funds needed for the scheme and those generated owing to the unevenly distributed farm structures between Member States. There would be either too little financing available (in Member States with many small farms) or the scheme would be over-funded (in Member States with large farm structures).

Clearly, the budgetary needs for financing the small farmer scheme crucially depend on the definition of small farmers. Several options could be considered to define the small farmers:

- Option 1: A threshold fixed at EU level for all Member States (e.g. EUR 1 000 per beneficiary)
- Option 2: A threshold calculated at Member States level with an EU-wide formula (e.g. 15 % of the average amount of direct payment per beneficiary in each Member States)
- Option 3: A threshold defined at Member States level within an EU framework (e.g. maximum EUR 1 000 per beneficiary and maximum 5 % of the direct payments envelope in each Member States dedicated to the small farmers)

### **7.1. Economic impacts**

The impacts of the three options in terms of number of beneficiaries and share of budget that would be dedicated to the scheme have been assessed on the basis of CATS data for financial year 2009 (mainly claim year 2008). CATS data gather direct payments really paid to farmers in a given year. Results have then been projected in the redistribution scenario "**MFF distribution key**". However, it was not possible to take into account structural adjustments that will certainly occur by 2020 as well as the redistribution of direct payments between beneficiaries due to the move to a flat rate at regional or national level.

The results would be the following:

- Option 1 would use 9.2 % of the EU DP envelope which would mean an additional 5.1% of DP dedicated to small farmers as compared to what they receive in the Status Quo. In CY, MT, RO, more than 40 % of the DP national envelopes would be used for more than 70% of beneficiaries. In IT, LT, EL, ES, PL, PT and SI, 8 to 23 % of national DP envelopes would be used for more than 40 % of beneficiaries. Detailed results are presented in Table 15.

**Table 15: Small farmers - Impacts of option 1 (EUR 1 000 per beneficiary for all MS)**

	Share of beneficiaries below the 1000 euros threshold	Share of budget necessary to grant 1000 euros to the beneficiaries below the 1000 euros threshold	Share of additional budget needed to finance these small farmers
AT	22%	3,7%	2,0%
BE	12%	0,9%	0,5%
BG	46%	4,5%	2,1%
CY	76%	57,7%	35,9%
CZ	17%	0,4%	0,2%
DE	23%	1,5%	0,9%
DK	23%	1,5%	0,9%
EE	36%	4,6%	2,2%
EL	55%	23,9%	15,1%
ES	44%	8,1%	4,9%
FI	9%	1,1%	0,3%
FR	15%	0,7%	0,4%
HU	43%	6,2%	3,1%
IR	8%	0,8%	0,4%
IT	62%	20,2%	12,3%
LT	59%	23,5%	11,3%
LU	9%	0,5%	0,2%
LV	48%	15,5%	7,0%
MT	85%	82,3%	66,3%
NL	24%	2,0%	1,2%
PL	50%	22,5%	10,6%
PT	70%	22,5%	15,2%
RO	79%	43,5%	21,9%
SE	27%	3,0%	1,4%
SI	45%	19,6%	9,5%
SK	48%	1,9%	1,0%
UK	18%	0,9%	0,4%
<b>EU 27</b>	<b>50%</b>	<b>9,2%</b>	<b>5,1%</b>

Source: CATS data, DG AGRI calculation

- Option 2 would use 4.8% of EU DP envelope which would mean an additional 2.8% of DP dedicated to small farmers as compared to what they receive in the Status Quo. The maximum share of national DP envelopes dedicated to small farmers would be 11% (in SK). The scheme would concern more than 40 % of beneficiaries in BG, CZ, EE, ES, HU, IT, MT, PT and SK. Detailed results are presented in Table 16.



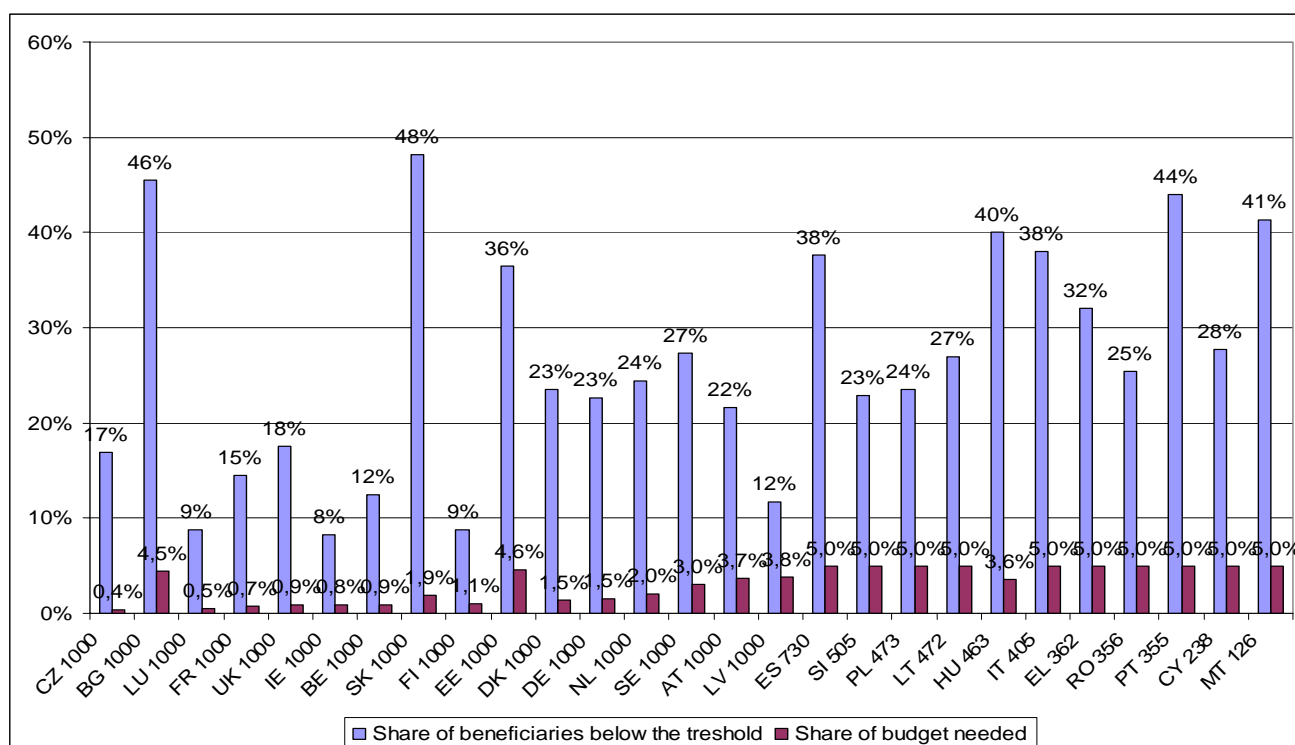
**Table 16: Small farmers - Impacts of option 2 (15% of the average amount of direct payment per beneficiary in each MS)**

	Threshold (15% of national avg) (in €)	% beneficiaries below threshold	Total amount needed to raise small farmers to the threshold set at 15% of nat.avg (in % of the DP envelope)	Share of additional budget needed to finance these small farmers
AT	868	20%	3,0%	1,6%
BE	2.070	22%	3,3%	1,8%
BG	1.524	66%	9,9%	6,3%
CY	198	21%	3,2%	0,8%
CZ	5.737	57%	8,6%	5,4%
DE	2.203	34%	5,1%	3,3%
DK	2.411	38%	5,8%	3,7%
EE	1.179	43%	6,4%	3,2%
EL	348	31%	4,7%	2,4%
ES	824	40%	6,1%	3,6%
FI	1.244	12%	1,8%	0,7%
FR	2.947	26%	3,9%	2,6%
HU	1.054	45%	6,8%	3,5%
IE	1.496	13%	2,0%	0,9%
IT	461	42%	6,3%	3,0%
LT	379	18%	2,8%	0,9%
LU	2.800	17%	2,5%	1,5%
LV	467	21%	3,1%	1,2%
MT	155	48%	7,2%	3,8%
NL	1.831	33%	4,9%	3,2%
PL	335	13%	1,9%	0,4%
PT	468	51%	7,7%	4,5%
RO	271	12%	1,8%	0,4%
SE	1.347	35%	5,2%	2,7%
SI	347	14%	2,1%	0,8%
SK	3.855	73%	11,0%	8,3%
UK	3.046	35%	5,3%	3,4%
<b>UE27</b>	<b>819</b>		<b>4,8%</b>	<b>2,8%</b>

Source: CATS data, DG AGRI calculation

- Option 3: In Figure 22, it is assumed that each Member States would try to maximise the threshold by reaching either EUR 1 000/beneficiary or the level of the threshold which allows to reach the maximum (5 %) share of national DP envelope. This limitation to 5 % of the national DP envelopes would reduce the EUR 1 000/beneficiary threshold in eleven Member States. The number of beneficiaries concerned still differs widely between Member States. This is due to the form of the distribution curves in each Member States that differs a lot (see for instance RO and BG). At EU level, it would represent 29% of all beneficiaries.

**Figure 22: Small farmers - Impact of option 3 (maximum EUR 1 000 per beneficiary and maximum 5% of the DP envelope in each MS)**



Source: CATS data for financial year 2009, DG AGRI calculation

Note: For those Member States in which a threshold of 1000€ per beneficiary will use more than 5% of the direct payments envelope for small farmers, the threshold has been reduced accordingly and its level appears after the initials of the Member States on the axe.

From an economic point of view, the scheme would result in an improvement of the position of smaller structures and to a consolidation of micro-size farms, thus contributing to vitality of rural areas, increasing the public acceptance of direct payments and having a positive impact on the income and purchasing power of small farmers. However, due to the lack of specific data there is no scope for additional quantitative assessment.

It has to be noted that, the risk of artificial splitting of holdings that are above the threshold to be considered a "small farm" would appear and legal provisions would have to be put in place to avoid this practice.

## 7.2. Impact on farm income

The impact of the small farmer scheme on the income of farms has been evaluated looking at the global impact on farm incomes as well as on the incomes of those farms that are the beneficiaries of the scheme. This was done on the basis of FADN data for the 'MFF distribution key' distribution option. It has to be noted, in this respect, that FADN only includes farms above a specific size threshold within Member States. As a result many small farmers which would benefit from this scheme are not covered by the survey. In some Member States the number of 'small farmers' (as defined under the 3 options) is too small to publish results (in that case, cells are left empty in the tables below). Nevertheless, the main advantage of using FADN data, contrary to CATS, is that the effects of the redistribution of DP at national/regional level can be taken into account.

Table 17 displays the share of farms per Member State included in the FADN that would be below the thresholds defined in the 3 options.

**Table 17: Small farmer scheme - share of farms per MS that would be below the thresholds**

	Total number of farms	option 1	option 2	option 3
		MFF distribution key	MFF distribution key	MFF distribution key
		Min € 1000	15% of the average DP in MS	Min € 1000 but Max 5%
Belgium	30.000	6,3%	8,0%	6,3%
Bulgaria	138.000	46,2%	53,2%	40,7%
Czech Republic	15.000	3,3%	20,0%	3,3%
Denmark	33.000	0,3%	1,2%	0,3%
Germany	200.000	1,5%	4,4%	1,5%
Estonia	7.000			
Ireland	97.000			
Greece	546.000	20,9%	1,1%	1,4%
Spain	713.000	30,5%	25,2%	19,2%
France	343.000	4,5%	10,0%	4,5%
Italy	609.000	21,1%	5,1%	4,1%
Cyprus	20.000	59,0%		9,0%
Latvia	25.000	4,0%		2,4%
Lithuania	51.000	2,5%		
Luxembourg	2.000			
Hungary	94.000	12,6%	14,9%	
Malta	2.000	20,0%		
Netherlands	57.000	4,7%	9,8%	4,7%
Austria	81.000	2,5%		2,5%
Poland	819.000	8,0%	0,7%	1,4%
Portugal	103.000	31,8%	10,6%	6,2%
Romania	956.000	63,9%	5,8%	11,5%
Slovenia	38.000	7,4%		
Slovakia	3.000			
Finland	44.000			
Sweden	32.000			
United Kingdom	97.000	1,2%	2,8%	1,2%
EU-27	5.155.000	25,0%	8,5%	7,5%

Source: DG AGRI- FADN

Note: The absence of figures for some option in some MS means that there is no farm below the threshold

The analysis shows that overall impacts on the income of the farm population, according to size units as in Table 18, are extremely low with detectable effects only in the smallest size units.

**Table 18: Impact of a small farmer scheme on farm income according to size units (in % of change compared to an option 'MFF distribution key' without the small farmer scheme)**

	MFF distribution key	MFF distribution key	MFF distribution key	MFF distribution key
		Min € 1000	15% of the average DP in MS	Min € 1000 but Max 5%
0 - <4 ESU	4.701	2,7%	0,9%	0,4%
4 - <8 ESU	11.255	0,5%	0,2%	0,1%
8 - <16 ESU	16.253	-0,3%	0,0%	0,0%
16 - <40 ESU	25.800	-0,2%	0,0%	-0,1%
40 - <100 ESU	40.690	-0,2%	-0,1%	-0,1%
>= 100 ESU	54.215	-0,2%	-0,1%	0,0%

Source: DG AGRI- FADN

On the other hand, when looking at the income effects for those farmers who are beneficiaries of the scheme, it becomes clear that, depending on the option, impacts can be very substantial reaching up to +21.8 % for the income of small farmers in BG under *option 2* (where the threshold is fixed at 15 % of national average of DP per beneficiary) as shown in Table 19.

**Table 19: Impact of small farmer scheme on income for benefiting farms represented in FADN (in % of change compared to an option 'MFF distribution key' without the small farmer scheme)**

	Change in income of farms benefiting from small farmer scheme		
	Option 1	Option 2	Option 3
	Min € 1000	15% of average DP in MS	Min € 1000 but max 5%
Belgium	0,4%	1,0%	0,4%
Bulgaria	13,6%	21,8%	7,6%
Czech Republic	2,5%	17,0%	2,5%
Denmark	0,0%	0,3%	0,0%
Germany	0,3%	1,0%	0,3%
Estonia			
Ireland			
Greece	2,6%	0,3%	0,3%
Spain	2,4%	1,6%	1,4%
France	0,5%	1,5%	0,5%
Italy	1,9%	0,5%	0,4%
Cyprus	9,2%		10,2%
Latvia	1,5%		1,9%
Lithuania	2,7%		
Luxembourg			
Hungary	4,4%	4,7%	
Malta	0,9%		
Netherlands	0,1%	0,2%	0,1%
Austria	1,6%		1,6%
Poland	2,2%	0,2%	0,6%
Portugal	6,7%	2,3%	1,8%
Romania	12,4%	1,7%	2,7%
Slovenia	8,9%		
Slovakia			
Finland			
Sweden			
United Kingdom	0,1%	0,7%	0,1%

Source: DG AGRI- FADN

Note: These results should not be considered as representative for all the "small farmers" of a given Member States. They serve merely as an illustration of the possible impacts on some small farms.

In summary, these estimated impacts on income demonstrate that a small farmer scheme could lead to considerable benefits for the farmers targeted by the measure while the impact on the farm population not benefiting from the scheme would be small.

### **7.3. Environmental and climate change impacts**

By supporting the economic situation of small farmers, the small farmers scheme would allow to keep in place the varied field structures with diversity of crops, field margins and hedgerows and niches of unproductive land that often goes together with these types of farms. Furthermore, by providing some development opportunities, the scheme could also help to alleviate some of the environmental problems of small scale farms, for example the fact that small-scale farmers often lack the knowledge and machinery to handle inputs in the most efficient way and to handle and apply manure in a way that has the least negative environmental impact.

#### **7.4. Administrative impacts**

Depending on the share of farmers concerned and on the rules that would be simplified for the small farmers, the small farmer scheme could considerably simplify the overall management of the direct payments scheme for Member States. For the farmer, the application procedure for this approach can be very simple and would mean a much less burdensome access to support.

An approach built on the assumption that the direct payments for small farmers would be generally increased does not require any additional control but cross-reporting from existing controls.

However, provisions aimed at preventing artificial "splitting" of farms could be complex to draft.

### **8. SPECIFIC SUPPORT SCHEME FOR YOUNG FARMERS**

Data on the age structure of farmers in the EU indicate the ageing of the farming community. As Table 20 shows, there are 1.8 mio young farmers (defined as farm holders "under 40 years of age") which make up 14% of the population of farmers in the EU-27 and hold 20% of the potentially eligible area (PEA)<sup>28</sup>. The largest share in PEA held by young farmers is found in PL (29%), AT and FR (both 27%), while the smallest one in RO (12%), MT and CY (both 13%). The average farm size of young farmers in most Member States is larger than the average farm size. Other indicators also suggest that their performance is better compared to farmers above 45 years of age. However, the weight of this comparison might be biased by a higher share of small and unprofitable farms.

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<sup>28</sup> The share of PEA held by young farmers has been calculated based on information from EUROSTAT on the share of utilised agricultural area (UAA) held by young farmers whereby the same share of PEA as for UAA has been assumed for YF.

**Table 20: Importance of young farmers**

	YF (farmers less than 40 yrs old*)		Hectares of PEA held by YF	
	N°	%	N°	%
BE	7.380	16,7%	278.606	21,3%
BG	37.805	7,7%	672.330	19,3%
CZ	6.745	18,5%	524.098	14,9%
DK	7.300	16,7%	541.021	20,4%
DE	80.010	21,9%	3.514.826	20,8%
EE	2.845	13,0%	200.716	23,2%
IE	20.220	15,8%	905.069	19,5%
GR	124.650	14,5%	1.257.560	22,6%
ES	110.260	11,2%	3.861.319	18,4%
FR	79.535	18,6%	7.183.943	27,1%
IT	134.410	8,1%	1.646.856	16,1%
CY	3.465	8,7%	18.599	12,9%
LV	17.460	16,2%	350.323	22,7%
LT	28.755	12,5%	509.308	19,3%
LU	360	15,9%	29.663	23,9%
HU	91.830	14,8%	821.250	16,2%
MT	1.000	9,1%	927	12,6%
NL	11.270	15,5%	314.547	17,3%
AT	38.785	24,0%	737.087	27,0%
PL	549.780	23,0%	4.106.957	29,0%
PT	15.365	5,7%	414.747	14,2%
RO	394.390	10,1%	1.158.933	11,9%
SI	7.875	10,5%	72.142	16,3%
SK	6.295	9,4%	285.412	15,2%
FI	13.755	20,5%	580.264	25,5%
SE	9.480	14,0%	534.687	17,5%
UK	24.820	8,8%	2.271.137	14,2%
EU-27	1.825.845	13,6%	32.445.877	20,1%
EU-15	677.600	12,4%	23.888.668	20,3%
EU-12	1.148.245	14,4%	8.564.459	19,7%

\* age class 'less than 40 years old' has been estimated by assuming a uniform distribution of farmers in the age class 'from 35 to 44 years old' based on Eurostat data

Source: Eurostat data, DG AGRI calculation

The CAP has recognized the age structure in the farming sector as a problem years ago and has been addressing it by rural development measures, in particular by the measure “Setting-up of young farmers”. By contrast, direct support schemes up to now do not explicitly target young farmers. Within an overall aim to enhance the competitiveness of EU agriculture, direct support schemes serve as an income support for farmers and have to be granted in line with the principle of non-discrimination. Nevertheless, when allocating payment entitlements under the SPS, Member States have the possibility to address young farmers indirectly through provisions for farmers commencing their agricultural activity between the reference period and the first year of the SPS and later on by using the national reserve.

Farmers commencing their agricultural activity are defined as a natural or legal person that did not have any agricultural activity in her own name and at her own risk in the 5 years preceding the start of the new agricultural activity. It is highly likely that many of the newcomers who apply are young farmers. However, further narrowing down of

newcomers as only young farmers, e.g. on the basis of criteria used for rural development measures, risks to be challenged at the European Court of Justice because of being discriminatory.

While a majority of Member States uses the national reserve for newcomers, there are a few that do not (DK, NL, SE, MT, DE, UK), which means that their young farmers can get the access to direct support under the SPS only by transfers of entitlements (by buying, leasing or inheriting). As this can be, together with land, rather costly, young farmers may not be encouraged to start farming. This is particular the case when the support for setting-up (or for an early retirement) is not available under the rural development programme (MT, NL, SK). In terms of access to direct payments, young farmers in Member States applying SAPS benefit from a more favourable treatment as they can claim direct support any year provided that they have at their disposal eligible land.

In the light of this situation, a specific support scheme for young farmers in Pillar I could be envisioned that would encourage the setting-up of young farmers and/or support the operation of their farms in the first years. When designing such a new scheme, the objectives of the scheme should guide further decisions such as whether it is mandatory or voluntary, who are beneficiaries, the amount and the form of support, when and for how long to grant support and whether to set any budgetary limits.

A mandatory application would ensure that the often difficult situation for young newcomers would be equally taken into account in all MS. On the other hand, voluntary application could be argued as well since Member States are in the best position to decide if an additional measure is necessary in their case.

As defining beneficiaries on the basis of their age could be challenged at the European Court of Justice, an alternative could be to use the current definition of "newcomers", with the expectation that most of them would be young farmers, or to apply the definition foreseen under rural development measures<sup>29</sup>. The justification could be that *"the creation and development of new economic activity by farmers commencing their agricultural activities (or young farmers) is financially challenging, in particular for young farmers, and this should be considered in the allocation and targeting of direct support"*. Besides legal implications, both targeted definitions also narrows down the number of potential beneficiaries, thus having more limited implications in terms of budgeting and administrative burden than if all farmers under 40 are granted support.

The following options for a specific support to young farmers could be envisaged:

- Option 1: Granting a fixed top-up payment per hectare to young farmers (less than 40 years of age)
- Option 2: Devoting a fixed percentage of the Member States' direct payment budget to a scheme for young farmers (less than 40 years of age)
- Option 3: Granting a top-up of a certain percentage of the basic rate for direct payments in each Member State to a scheme for young farmers (less than 40 years of age)

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<sup>29</sup> Beneficiaries for RD measure "YF setting-up for the first time" are those who are less than 40 years of age, possess adequate occupational skills/competence and have submitted a business plan.



- Option 4: Granting a lump-sum support to starting-up farmers based on average farm size and average direct payments per ha in the Member State.

In all options, the support would be given for a limited number of years, e.g. 3 years or 5 years, or until a farmer reaches the age of more than 40 years.

### **8.1. Economic impacts**

The impacts of the four options are assessed in terms of the level of the payment to young farmers and the share of budget that would have to be dedicated to the scheme in a given year. The analysis is done on the basis of Eurostat data on the number of young farmers and the size of their farms. Results have then been projected in the redistribution scenario "**MFF distribution key**".

The results would be the following:

- Option 1: The impact of a YFS with a fixed top-up amount per hectare for small farmers has been examined for three different amounts for the top-up of 100€/ha, 50€/ha and 20€/ha. Both a top-up of 100€/ha and a top-up of 50€/ha would require a considerable share of the direct payment budget for its financing (7.6 % and 3.8 % respectively at EU level) while these amounts would be reduced substantially for the top-up of 20€/ha (1.5 %). LV would be the Member State with the highest share of the national direct payment envelope going into the YFS, up to 16 % with a 100€/ha top-up due to the fact that its number of young farmers is relatively high and the budgetary envelope for direct payments relatively low (see Table 21).

**Table 21: Impact of YFS with fixed top-up payment per hectare**

	Budget for YFS with 100€/ha	Share of budget YFS with 100€/ha	Budget for YFS with 50€/ha	Share of budget YFS with 50€/ha	Budget for YFS with 20€/ha	Share of budget YFS with 20€/ha
	mio €	%	mio €	%	mio €	%
BE	27,9	5,3%	13,9	2,6%	5,6	1,1%
BG	67,2	8,2%	33,6	4,1%	13,4	1,6%
CZ	52,4	5,9%	26,2	2,9%	10,5	1,2%
DK	54,1	5,9%	27,1	3,0%	10,8	1,2%
DE	351,5	6,8%	175,7	3,4%	70,3	1,4%
EE	20,1	14,8%	10,0	7,4%	4,0	3,0%
IE	90,5	7,3%	45,3	3,6%	18,1	1,5%
GR	125,8	6,2%	62,9	3,1%	25,2	1,2%
ES	386,1	7,7%	193,1	3,9%	77,2	1,5%
FR	718,4	9,4%	359,2	4,7%	143,7	1,9%
IT	164,7	4,3%	82,3	2,1%	32,9	0,9%
CY	1,9	3,7%	0,9	1,8%	0,4	0,7%
LV	35,0	16,0%	17,5	8,0%	7,0	3,2%
LT	50,9	11,1%	25,5	5,5%	10,2	2,2%
LU	3,0	8,7%	1,5	4,3%	0,6	1,7%
HU	82,1	6,3%	41,1	3,2%	16,4	1,3%
MT	0,1	1,9%	0,0	0,9%	0,0	0,4%
NL	31,5	4,1%	15,7	2,1%	6,3	0,8%
AT	73,7	10,4%	36,9	5,2%	14,7	2,1%
PL	410,7	13,1%	205,3	6,5%	82,1	2,6%
PT	41,5	6,8%	20,7	3,4%	8,3	1,4%
RO	115,9	5,9%	57,9	3,0%	23,2	1,2%
SI	7,2	5,2%	3,6	2,6%	1,4	1,0%
SK	28,5	7,1%	14,3	3,5%	5,7	1,4%
FI	58,0	10,8%	29,0	5,4%	11,6	2,2%
SE	53,5	7,5%	26,7	3,7%	10,7	1,5%
UK	227,1	6,2%	113,6	3,1%	45,4	1,2%
EU-27	3.244,6	7,6%	1.622,3	3,8%	648,9	1,5%
EU-15	2.388,9	7,1%	1.194,4	3,6%	477,8	1,4%
EU-12	856,4	9,0%	428,2	4,5%	171,3	1,8%

\* age class 'less than 40 years old' has been estimated by assuming a uniform distribution of farmers in the age class 'from 35 to 44 years old' based on Eurostat data

Source: Eurostat data, DG AGRI calculation

- Option 2: The impact of a YFS with a fixed percentage of the Member State overall direct payment budget devoted to the scheme was examined for two shares of the direct payment budget, i.e. 5 % and 2.5 %. At EU level, the per hectare top-up amounts resulting from the application of such a scheme would be 66€/ha for a 5% share of the budget and 33 €/ha for a 2.5% share of the budget. However, the amounts would vary substantially between Member States with, for example, MT going up to 266 €/ha in the 5% budget situation while LV would be at 31€/ha for the same setting (see Table 22).

**Table 22: Impact of YFS with fixed percentage of direct payment budget**

	Budget for YFS with 5% of MS envelope for YFS	€/ha for YF with 5% of MS budget for YFS	Budget for YFS with 2.5% of MS envelope for YFS	€/ha for YF with 2.5% of MS budget for YFS
	mio €	€/ha	mio €	€/ha
BE	26,4	94,7	13,2	47,4
BG	40,8	60,7	20,4	30,3
CZ	44,7	85,4	22,4	42,7
DK	45,7	84,5	22,8	42,2
DE	259,2	73,7	129,6	36,9
EE	6,8	33,7	3,4	16,9
IE	62,1	68,6	31,0	34,3
GR	101,2	80,5	50,6	40,2
ES	249,9	64,7	124,9	32,4
FR	382,7	53,3	191,4	26,6
IT	192,8	117,1	96,4	58,5
CY	2,5	135,9	1,3	67,9
LV	11,0	31,3	5,5	15,6
LT	23,0	45,2	11,5	22,6
LU	1,7	57,8	0,9	28,9
HU	65,1	79,2	32,5	39,6
MT	0,2	266,4	0,1	133,2
NL	38,3	121,8	19,2	60,9
AT	35,4	48,1	17,7	24,0
PL	156,9	38,2	78,4	19,1
PT	30,3	73,1	15,2	36,5
RO	97,5	84,1	48,7	42,0
SI	6,9	96,2	3,5	48,1
SK	20,2	70,8	10,1	35,4
FI	26,9	46,3	13,4	23,2
SE	35,9	67,1	17,9	33,5
UK	184,1	81,0	92,0	40,5
EU-27	2.148,2	66,2	1.074,1	33,1
EU-15	1.672,6	70,0	836,3	35,0
EU-12	475,6	55,5	237,8	27,8

\* age class 'less than 40 years old' has been estimated by assuming a uniform distribution of farmers in the age class 'from 35 to 44 years old' based on Eurostat data

Source: Eurostat data, DG AGRI calculation

- Option 3: The impact of a YFS with a top-up for young farmers as a percentage of the basic payment rate was examined for a top-up percentage of 20 % and 25 %. Assuming a basic rate of 60 % of the overall direct payment envelope of a Member State, for the EU-27 the 20 % top-up would be 30€/ha leading to a basic rate of 179€/ha for young farmers (as compared to 149€/ha for other farmers) and 37€/ha for the 25% top-up leading to a basic rate of 186€/ha for young farmers. This would mean 2.3 % and 2.8 %, respectively, of the direct payment budget at EU level. The highest 25% top-up would be paid in GR (75€/ha) while the lowest would be in LV (19€/ha). The share of the direct payment budget devoted to the YFS would vary between 1.3 % in RO and MT and 4.6 % in GR with the 25% top-up (see Table 23).

**Table 23: Impact of YFS with top-up of a certain percentage of the basic rate**

	basic rate per ha	20% top-up to basic rate	basic rate per ha for YF with 20% top-up	Budget for YFS with 20% top-up for YF	Share of YFS in total budget with 20% top-up	25% top-up to basic rate	basic rate per ha for YF with 25% top-up	Budget for YFS with 25% top-up for YF	Share of YFS in total budget with 25% top-up
	€/ha	€/ha	€/ha	mio €	%	€/ha	€/ha	mio €	%
BE	230,5	46,1	276,5	12,8	2,4%	57,6	288,1	16,1	3,0%
BG	160,5	32,1	192,6	21,6	2,6%	40,1	200,7	27,0	3,3%
CZ	152,6	30,5	183,1	16,0	1,8%	38,1	190,7	20,0	2,2%
DK	206,0	41,2	247,2	22,3	2,4%	51,5	257,5	27,9	3,0%
DE	183,7	36,7	220,4	129,1	2,5%	45,9	229,6	161,4	3,1%
EE	89,6	17,9	107,5	3,6	2,7%	22,4	112,0	4,5	3,3%
IE	180,0	36,0	216,0	32,6	2,6%	45,0	225,0	40,7	3,3%
GR	298,0	59,6	357,6	74,9	3,7%	74,5	372,5	93,7	4,6%
ES	120,5	24,1	144,5	93,0	1,9%	30,1	150,6	116,3	2,3%
FR	167,2	33,4	200,6	240,2	3,1%	41,8	208,9	300,2	3,9%
IT	181,5	36,3	217,8	59,8	1,6%	45,4	226,9	74,7	1,9%
CY	207,7	41,5	249,3	0,8	1,5%	51,9	259,7	1,0	1,9%
LV	74,2	14,8	89,0	5,2	2,4%	18,5	92,7	6,5	3,0%
LT	104,3	20,9	125,2	10,6	2,3%	26,1	130,4	13,3	2,9%
LU	157,2	31,4	188,6	0,9	2,7%	39,3	196,5	1,2	3,4%
HU	184,6	36,9	221,5	30,3	2,3%	46,2	230,8	37,9	2,9%
MT	287,0	57,4	344,4	0,1	1,1%	71,8	358,8	0,1	1,3%
NL	240,2	48,0	288,3	15,1	2,0%	60,1	300,3	18,9	2,5%
AT	133,4	26,7	160,1	19,7	2,8%	33,3	166,7	24,6	3,5%
PL	121,6	24,3	145,9	99,9	3,2%	30,4	152,0	124,9	4,0%
PT	104,7	20,9	125,7	8,7	1,4%	26,2	130,9	10,9	1,8%
RO	85,0	17,0	102,0	19,7	1,0%	21,3	106,3	24,6	1,3%
SI	170,3	34,1	204,4	2,5	1,8%	42,6	212,9	3,1	2,2%
SK	125,2	25,0	150,2	7,1	1,8%	31,3	156,5	8,9	2,2%
FI	138,4	27,7	166,1	16,1	3,0%	34,6	173,1	20,1	3,7%
SE	137,8	27,6	165,3	14,7	2,1%	34,4	172,2	18,4	2,6%
UK	133,9	26,8	160,6	60,8	1,7%	33,5	167,3	76,0	2,1%
EU-27	149,1	29,8	178,9	967,5	2,3%	37,3	186,4	1.209,4	2,8%
EU-15	160,6	32,1	192,7	767,4	2,3%	40,2	200,8	959,2	2,9%
EU-12	119,0	23,8	142,9	203,9	2,1%	29,8	148,8	254,9	2,7%

\* age class 'less than 40 years old' has been estimated by assuming a uniform distribution of farmers in the age class 'from 35 to 44 years old' based on Eurostat data

Source: Eurostat data, DG AGRI calculation

- Option 4: The impact of a lump-sum support to young farmers was analysed for a model that would give young farmers a payment at the level of 25 % of the average direct payment per ha in the Member State in which they are located times their farm size in hectare with a limit of 25 ha in Member States whose average size of holding is below 25 ha and a maximum comprised between 25 ha and the average size of holdings in the Member States where average holding size is equal to or higher than 25 ha. The results shown in Table 24<sup>30</sup> indicate that the overall budgetary impact at EU-27 level would be limited to 0.21 % of the total direct payment budget. In the different Member States, the amounts would lie between 0.1 % in the UK and 0.36 % in PL.

<sup>30</sup> Note that the calculations are based on a number of assumptions about the number of farmers that could profit from the scheme that are difficult to verify. Therefore, the figures should only be seen as indicative.

**Table 24: Impact of YFS with a lump-sum support**

	5% of farmers <40yrs**	average farm size of YF	average farm size in MS	number of hectares taken into account for YFS	average DP/ha PEA	YFS payment per farmer***	total payments to YFS	YFS in share of total DP budget
	N°	ha	ha	ha	DP/ha	€	€	%
BE	369	37,8	28,6	28,6	403,4	2.887	1.065.345	0,20%
BG	1.890	17,8	6,2	17,8	233,7	1.039	1.964.112	0,24%
CZ	337	77,7	89,3	77,7	254,8	4.950	1.669.390	0,19%
DK	365	74,1	59,7	59,7	344,2	5.135	1.874.111	0,21%
DE	4.001	43,9	45,7	43,9	307,3	3.375	13.503.337	0,26%
EE	142	70,6	38,9	38,9	156,6	1.521	216.314	0,16%
IE	1.011	44,8	32,3	32,3	267,8	2.161	2.185.040	0,18%
GR	6.233	10,1	4,7	10,1	363,9	918	5.720.039	0,28%
ES	5.513	35,0	23,8	25,0	237,7	1.485	8.188.837	0,16%
FR	3.977	90,3	52,1	52,1	288,9	3.763	14.965.404	0,20%
IT	6.721	12,3	7,6	12,3	378,0	1.158	7.782.255	0,20%
CY	173	5,4	3,6	5,4	351,7	472	81.777	0,16%
LV	873	20,1	16,5	20,1	141,8	711	620.911	0,28%
LT	1.438	17,7	11,5	17,7	174,4	772	1.110.348	0,24%
LU	18	82,4	56,9	56,9	275,7	3.922	70.593	0,21%
HU	4.592	8,9	6,8	8,9	257,3	575	2.641.290	0,20%
MT	50	0,9	0,9	0,9	673,7	156	7.803	0,16%
NL	564	27,9	24,9	25,0	422,1	2.638	1.486.754	0,19%
AT	1.939	19,0	19,3	19,0	259,8	1.234	2.393.323	0,34%
PL	27.489	7,5	6,5	7,5	221,7	414	11.381.403	0,36%
PT	768	27,0	12,6	25,0	207,7	1.298	997.349	0,16%
RO	19.720	2,9	3,5	2,9	200,5	147	2.904.727	0,15%
SI	394	9,2	6,5	9,2	312,6	716	281.911	0,20%
SK	315	45,3	28,1	28,1	215,4	1.512	475.785	0,12%
FI	688	42,2	33,6	33,6	236,0	1.983	1.363.523	0,25%
SE	474	56,4	42,9	42,9	234,9	2.522	1.195.325	0,17%
UK	1.241	91,5	53,8	53,8	230,9	3.106	3.854.291	0,10%
EU-27	91.292	17,8			266,7		90.001.296	0,21%
EU-15	33.880	35,3			284,4		66.645.526	0,20%
EU-12	57.412	7,5			218,9		23.355.770	0,25%

\* age class 'less than 40 years old' has been estimated by assuming a uniform distribution of farmers in the age class 'from 35 to 44 years old' based on Eurostat data

\*\* it was assumed (on the basis of the figures of farmers assisted in the RD programmes for YF) that the number of assisted farmers in the YFS could be around 5% of the farmers <40yrs

\*\*\* 25% of average DP/ha x average farm size of young farmers (with limit of 25 ha in MS whose average size of holding is below 25 ha and limit of average size of holdings in the MS where average holding size is more than 25 ha)

Source: Eurostat data, DG AGRI calculation

## 8.2. Social impacts

A specific support scheme for young farmers could encourage the entry of young farmers into the sector and thus improve the age structure in the farming sector. A setting-up aid (option 4) is likely to prove more efficient in this respect because it is targeted only to new entrants, not to those young farmers already in the sector.

However, an aid given to *all* new entrants - whether young farmers or not – would risk supporting some people who were not actually targeted by the measure. Furthermore, option 4 bears a certain risk of leading to double funding with the already existing aid for “Setting-up of young farmers” under rural development policy, which is based on similar criteria. However, if the young farmer scheme was designed in such a way as to bring additional income and lower the cost of capital it could actually be complementary to the support possible under Pillar II.

Options 1-3, which are not targeted as a start-up support but an income support to all farmers under a certain age – risk less of an overlap with existing rural development support as they are based on different criteria. On the other hand, due to the fact that they are based on age alone as the selection criterion they may be challenged at the European Court of Justice for being discriminatory.

### **8.3. Environmental impacts**

It is unlikely that there would be substantial environmental impacts from the introduction of a young farmer scheme. However, it is possible that young farmers would have a particularly good awareness of environmental problems and the skills and knowledge to use modern technology that allows environmentally and climate friendly production methods.

### **8.4. International impacts**

There would be no particular international impacts from a young farmer scheme.

### **8.5. Administrative impacts**

The implementation of a scheme for young farmers would cause additional administrative burden but the costs would be limited as the number of farmers that could take part in such a scheme would not be extremely high. It is important that such a scheme would be designed not to double existing support possibilities under rural development.

## **9. BETTER DEFINITION OF "ACTIVE FARMERS"**

The current definition of "farmer" ("*...a natural or legal person, or a group of natural or legal persons (...) who exercises an agricultural activity.*") acknowledges the fact that direct support is decoupled and, thus, not linked to production activity. However, the application of this definition has resulted in criticism from the European Court of Auditors (ECA), and also from the public at large, as certain cases have been reported where direct payments seem to have been granted to persons or companies that cannot be considered as genuine farmers as they are only to a very small extent engaged in agriculture or agriculture is not their main business activity.

This problem was already addressed in the Health Check of the CAP that provided for optional additional criteria for the exclusion of persons/companies from the aid whose agricultural activity is only an insignificant part of their overall activity and/or whose main business objects do not consist of exercising an agricultural activity. However, no Member State has made use of the possibility of setting up these additional criteria.

This is why a provision could be introduced that obliges Member States to define who is an "active farmer". However, the introduction of such a provision poses substantial practical difficulties:

- First, as there exists limited information on the exact dimension of the problem (number of beneficiaries now receiving direct support but not qualifying as "active farmers") it is rather difficult to make a quantitative analysis of impacts.
- Second, the definition needs to be fine-tuned to reliably exclude non-active farmers while at the same time not affecting the access to support of genuine farmers. The criteria to define 'active farmers' would have to ensure that part-time farmers are not excluded as it is clear that diversification of activities is a valuable alternative to limited growth opportunities within the farm sector and contributes to maintaining farming in areas where agriculture is socially and environmentally valuable.

- Third, the situations differ substantially between Member States with respect to how many beneficiaries could be affected and with respect to what kind of information is available in national statistics to be used as criteria to determine what is an "active farmer".

As for establishing the criteria to define who is an "active farmer" there are two approaches both of which, however, may create problems:

- Due to the differences between Member States mentioned above, it could be a promising approach to establish a list of criteria for the definition of "active farmers" at European level from which Member States could then choose those elements that best fit their national situation and the availability of information. The problem with this approach is that it could give rise to complaints about discrimination and unequal treatment between farmers.
- Alternatively, fixed and equal criteria could be set that all Member States would have to apply. This, however, would not leave flexibility to Member States and could create problems for those Member States that are not in a position to apply the selected elements.

Possible elements to be considered as criteria to determine who is an "active farmer" could be, for example:

- That the turnover (or income, or receipts) derived from an agricultural activity represents or represented at least X % of the total turnover (income, receipts) of a natural or legal person. This would mean that payments would be granted only to those natural and legal persons for whom agriculture forms a significant part of overall economic activities or whose principal business or company objects consists of exercising an agricultural activity. However, care would have to be taken not to exclude part time farmers with such a definition (most notably those engaged in diversification strategies).
- That farm animals or agricultural crops, or of farm machinery, or relevant facilities for an agricultural activity are present on the agricultural holding. However, these criteria could result in problems with the Green Box classification of support if they were not linked to a date in the past – which, in turn, would make them questionable for determining who is an active farmer today.
- That professional qualification and/or practical experience is properly credited or that the physical residence of the person is on the agricultural holding or close to it. However, while these criteria are not problematic from a WTO or discrimination point of view, they would also not suffice as the only criteria to determine who is an active farmer.
- Certain types of business (such as airports, railway companies, sport grounds, etc.) could be excluded from qualifying as active farmers ("negative list"). However, such a negative list could pose problems since it may not be exhaustive and thus may leave out certain companies which could lead to complaints about unequal treatment by the economical agents explicitly mentioned on the list.

- Farmers subscribing to rural development measures could be considered as active farmers. However, this criterion is, again, not sufficient as the sole determinant of who should be seen as an active farmer.

### **9.1. Economic and social impacts**

The economic impacts of a better definition of "active farmers" would most likely not be substantial as the problem of granting direct payments to non-genuine farmers seems to be limited to particular cases and is not a widespread phenomenon. This having been said, a definition that guarantees that only active farmers receive support means, of course, a better targeting of payments to those who actually are the intended recipients. Thus, the approach would improve the use of public funds and increase the public acceptance of direct payments.

### **9.2. International impacts**

It would have to be ensured that the list of criteria set up to define who is an "active farmer" contains only elements that respect WTO Green Box criteria. In particular, it would have to be avoided that any of the criteria would imply an obligation to produce in order to be classified as an "active farmer" as this would be against the principle of decoupling.

### **9.3. Environmental impacts**

Care is needed not to exclude from support - and so from GAEC - land which is important for environmental reasons and/or which may also at some stage be needed for agriculture.

### **9.4. Administrative impacts**

Improving the targeting of payments to active farmers would require careful fine tuning of definitions, possibly in cooperation with Member States, and selecting criteria to be integrated into the IACS register. This would generate substantial administrative effort for farmers who would have to prove eligibility by providing supplementary detailed information and possibly submitting accompanying documents with their application and for national/regional authorities who would have to control the received information. This could lead to a considerable increase of administrative burden for farmers and Member States.

## **10. COUPLED AID FOR SPECIFIC SECTORS AND REGIONS**

Decoupling has been the principle of recent CAP reforms as it introduces flexibility in the choice of producers who continue to produce where it is profitable, and adapt their output to the market, like changing to alternative crops where it is adequate.. However, there are particular sectors and regions where the maintenance of a specific type of production is important to generate economic benefits and benefits in terms of the social fabric of areas and where, without coupled support, there is a danger of this production vanishing.

This is why the Communication on the future CAP foresees that coupled support may continue to be granted to take into account specific problems in certain regions where



particular type of farming are considered particularly important for economic and/or social reasons. The potential risks and benefits in the regions should be identified on a case-by-case basis before deciding to which extent and where a possibility for coupled support should remain.

To this end, the role of coupled payments on farmer's margins was assessed on the basis of FADN data (see details in sub-annex 3E "Impact of suppression of coupled support for beef, sheep and goat sectors based on FADN data"). As some current coupled payments will become decoupled in the coming years (sugar beet and cane, fruits and vegetables) and as some others are part of specific programmes (POSEI and Small Aegean Islands) or are guaranteed by the Treaty (cotton), the assessment was limited to the beef, sheep and goat sectors<sup>31</sup>. All types of coupled payments implemented during the analysed period were taken into account: "re-coupled" payment, specific support (Article 69 of Reg. 1782/2003), national aid or Complementary National Direct Payment.

The analysis is based on the principle consideration that, if all the payments are decoupled, it is assumed that a farmer continues producing only if the output covers the operating costs. Therefore the analysis compares the margin over operating costs with and without coupled payments and looks at the particular Member States, types of production systems and types of areas (LFA, mountain LFA, non-LFA) to assess the impacts.

### **10.1. Farm level impacts of keeping certain types of coupled supports**

The impacts of withdrawing coupled payments on farmers' margins vary substantially across the analysed Member States and the different production systems and regions.

In the beef sector, in FI and SE direct payments (both EU and national coupled & decoupled payments – especially LFA and environmental payments) are so important that the farmers may not take their production decision solely on the basis of a margin analysis per enterprise. Specialist breeders especially in mountainous LFA are the most sensitive to the decoupling of any of the per head payments especially in FR, AT and PT where from 18 to 44 % of the suckler cow population could be affected. The payments per head represent a lower share of the margin of the specialist breeders and fatteners (B&F); therefore the impact of a total decoupling would be limited for these systems except in FR and PT where respectively 15 % and 36 % of the cows could be affected, especially in other LFA areas. Suppression of the coupled direct payments for fatteners affected estimated 86 % of FI fattening farms and 89 % of the total population of animals.

In the sheep and goat sector, effects likewise vary strongly between different production systems. For sheep milk producers, the impact of a total decoupling would be limited because of the high output they obtain from milk and cheese. The highest impact is estimated in PT (5 % of the ewes). For goat milk farms, 5 % of the she-goats in FR and ES are grazed on farms moving to a negative margin and 9 % in CY. On the contrary sheep meat specialists are more sensitive to any decoupling because coupled payments represent a high share of their margin. In FR 26 % of the 'meat' ewes may be affected, in

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<sup>31</sup> Coupled supports for rice and silk worms (possible under article 68) are also not covered in this impact assessment.

ES the impact may be limited to 5 % of the ewes. Despite the limitation due to small sample sizes, it seems plausible that the impact would be also significant in HU and PT.

### **10.2. Environmental and climate change impacts**

The question of whether margins would turn negative without coupled support in the beef, sheep and goat sectors is of substantial importance from an environmental point of view as many of the producers are located in environmentally sensitive areas where little or no other agricultural activity is possible as production conditions are particularly challenging. The move to negative margins and, as a consequence, the termination of agricultural production in these areas could result in land abandonment with negative environmental and climate change consequences.

For example, 84 % of the EU-27 beef breeders are located in less favoured areas and gross margin is significantly lower in mountainous LFA as the lower value of output is not fully compensated by lower costs of production. In general, sheep and goat production is also located mainly in LFA where often no other production is possible.

### **10.3. Social impacts**

In rural areas where little other agricultural or general economic activity takes place, beef, sheep and goat production can contribute to providing employment and keeping up the vitality and attractiveness of rural areas. As these types of farming are often located in disadvantaged regions, the continuation of production can be judged favourably from a social point of view in these cases.

### **10.4. International impacts**

A precondition for maintaining some payments coupled to production is that these payments stay within strict limits to be fully compatible with WTO requirements.

### **10.5. Administrative impacts**

Keeping the possibility for provision of coupled direct support in certain sectors and regions does imply that some administrative complexity remains as compared to a situation without coupled payments. However, the fact that this support would be restricted to particular situations where it is deemed necessary means that overall administrative impacts would be limited.

## **11. INCREASE IN DIRECT PAYMENTS' CONTRIBUTION TO ENVIRONMENT AND CLIMATE CHANGE MITIGATION AND ADAPTATION**

As regards Pillar I's increase in environmental performance, the Communication of the future CAP mentions several elements:

- a mandatory greening component of direct payments which would support simple, annual, generalised and non contractual measures addressing both climate and environmental policy goals and applicable across the whole of the EU territory (e.g. permanent pasture, green cover, crop rotation, ecological set-aside);

- the enhancement of certain elements of Good Agricultural and Environmental Conditions (GAEC) within cross compliance.

The analysis in annex 2 "Greening of the CAP" shows that there is a place for a greening component of direct payments within this two pillar structure, which would - together with enhanced cross compliance and a stronger rural development - considerably enhance the environmental performance of the CAP throughout the EU territory.

To be effective, the design of such a greening component should strike the right balance between benefits for the environment and efforts required by the farming sector, while staying simple as befits the Pillar I and keeping administrative burden as low as possible.

## 12. COMBINATION OF OPTIONS FOR DIRECT PAYMENTS INTO SCENARIOS

This section discusses the overall impacts of the direct payment aspects of the three broad policy scenarios mentioned in the Communication on the CAP, i.e. the "adjustment", "integration" and "re-focus" scenario. As each scenario includes a different combination of the elements for direct payments discussed in chapters 4 to 10, the section draws strongly on the discussion earlier in this paper and only briefly recapitulates the effects that the combination of the options will produce.

### 12.1. Description of the combined options into scenarios for direct payments

#### 12.1.1. "Adjustment" scenario

The "adjustment" scenario focuses on the redistribution of direct payments toward more equity between Member States and farmers. Different approaches to this redistribution are applied (such as convergence to **EU flat rate**, "**Min 80%**" or "**Min 90% with objective criteria**"). The redistribution would imply a move of all Member States towards a regional model for direct payments, independently of the options chosen for redistributing the envelopes (see chapter 4).

Additionally, cross compliance is streamlined while its contribution to the climate change objective is increased (see annex 2 to the Impact Assessment on "Greening of the CAP"). Some coupled payments (suckler cow, sheep and goat) remain for those countries which apply them (see chapter 10).

#### 12.1.2. "Integration" scenario

The "integration" scenario focuses on better targeting of direct support by improving the balance of both economic and environmental concerns within Pillar I of the CAP. It consists in:

- Redistribution of the direct payments between Member States according to "**MFF distribution key**"
- The granting of direct payments as a combination of different components, consisting of:
  - a compulsory basic income support (at least 60% of national envelope in each Member States) distributed under the form of a regional flat rate based on entitlements (see section 4.2);

- a compulsory area-based payment for naturally handicapped areas of maximum 5% of national direct payments envelope (see chapter 5);
  - a compulsory green payment across the whole EU territory, composed of simple, generalized, annual and non-contractual environmental measures going beyond baseline standards of cross compliance (the green layer would represent 30% of national envelope in each Member States); the measures would concern permanent grassland, ecological set-aside, crop diversification and a Natura 2000 specific support as well as automatic granting of the payment to organic farming (see chapter 11 and annex 2 on "Greening of the CAP");
  - a voluntary coupled support component for specific sectors representing maximum 7.5% of the national direct payments envelope (see chapter 10)
- All layers but the greening are subject to progressive capping mitigated by salaried labour employed (see chapter 6)
  - Better targeting of support to active farmers in order to make sure that direct payments reach only persons genuinely engaged in agriculture including part-time farmers (see chapter 9)
  - A lump sum support to small farmers (defined as small beneficiaries below a certain threshold) replacing all the other components of direct payments in order to cut red tape, financed by a maximum 5% of direct payments national envelope (see chapter 7)
  - A support scheme for young farmers (defined as farmers starting-up an agricultural activity) based on farm size and average direct payments in a Member State, financed by a maximum of 2% of direct payments national envelope (see chapter 8)
  - Streamlining of cross compliance while increasing its contribution to climate change objective and ensuring consistency with the "green" layer (see annex 2 on "Greening of the CAP")

### *12.1.3. "Refocus" scenario*

The "re-focus" scenario assumes the phasing out of direct payments between 2013 and 2020.

## **12.2. Description of impacts due to the combination of the different options**

This part summarizes the impact of the three policy scenarios with respect to general and income impacts, environmental impacts, international impacts and administrative impacts.

### *12.2.1. Economic and social (income) impacts*

#### **Adjustment scenario:**

The effects of the redistribution of direct payments would vary strongly depending on the option chosen. The option of granting flat rate direct payments across the EU would lead to massive redistributions of funds between Member States. The resulting substantial

impacts on incomes are likely to make it politically unacceptable for many Member States to agree to such a redistribution.

The options of ensuring a minimum level of convergence or of combining this pragmatic approach with the use of objective criteria in redistributing between Member States would reduce the effects on incomes while still leading to a more equitable distribution of direct payments among Member States.

The move towards a regional model for direct payments that is implied in the redistribution means that direct payments would be redistributed also between farmers within Member States, at least in those Member States currently applying a historic model.

The impact on income per type of farming is mainly driven by the move toward a regional model. Whatever the option for redistribution, grazing livestock farms and to a lower extent wine farms and horticulture would benefit. Field crop farms and milk farms, on the other hand, would see a significant decrease in their income. In general, farming systems based mainly on grassland would considerably benefit from the redistribution.

### **Integration scenario:**

The impact of the redistribution of payments would go in the same direction as described for the adjustment scenario, albeit with a somewhat lower level of convergence of payment levels between Member States due to the fact that the increase in direct payment for Member States below 90% of the EU average is more limited. The extent of changes would also be influenced by:

- The fact that only a part of the national envelope would be devoted to the basic income support so that some farmers could see their basic income support substantially reduced. The impacts of this reduction may, of course, be mitigated by a transitional period in order to allow the adjustments of farm structures;
- The fact that largest beneficiaries would be capped. As regards capping, it would be counter-productive from an environmental point of view to cap the greening component of direct payments. Therefore, capping would only apply to a share of the direct payment received by the largest beneficiaries, which means that the amounts resulting from capping would be lower and the income effect lighter than described in chapter 6;
- The fact that for a share of farms, there will be costs associated to the environmental measures required to receive the greening component of the direct payments. Farm income would be affected to various extents. Those costs would depend on the measures themselves, on the technical orientation of the farms and on the existing environmental performance of the farmers (see Annex 2 on "Greening of the CAP").
- The new payment for farms located in areas with specific natural constraints. In LFA/NHA, farm incomes would benefit both from the move to a flat rate at national/regional level and from the new payment to areas with specific natural constraints. However this would strongly depend on the level of implementation of the flat rate and delimitation of regions by the Member States;

- The maintenance of coupled supports to livestock. The effect would depend on the allocation of budget to this component. If a reduction of the envelope of coupled aids occurs compared to the Status Quo, the most affected farms would be grazing livestock farms in certain regions. However, this is mitigated by the rest of the scheme (redistribution of direct payments) which is in general more favourable to grazing livestock farms;
- The fact that small farmers would see an increase in their direct payments, narrowing the income gap with bigger structures. This would allow them to choose the development path they wish, whether towards structural change or maintaining local small-scale production;
- The support scheme for young farmers which would increase the incomes of farmers starting-up agricultural activity for a limited number of years and thus encourage the entry of young farmers into the sector;
- The better targeting of support to active farmers, which would most likely not have substantial overall income effects for the sector but would increase the public acceptance of direct payments;
- The fact that there are farmers who can profit from many components of the system, e.g. being located in areas with specific natural constraints thus eligible to the LFA component of the direct payments and efficiently carrying out the environmental measures of the greening component. They would see their income increase as compared to farmers who can make use only of some components of the system.

### **Refocus scenario:**

The end of direct support would result in structural changes by accelerating the move towards larger farm sizes and to more competitive production regions. Substantial reductions in farm incomes would force many producers out of business and could even endanger generally economically viable farms in years of difficult market situations as the role of direct payments in providing income support would be lost. Structural changes are likely to result in loss of employment in the farm sector and possibly also in up- and downstream sectors.

The main impacts would likely be not on the overall quantity of agricultural production in the EU but on the way this production is distributed over the EU territory. The lack of regional production in many areas could have negative consequences for local markets and products and could negatively affect certain up- and downstream enterprises and more generally the vitality of rural areas.

However, due to the fact that the phasing out would take place gradually, these changes would be spread out over time.

#### *12.2.2. Environmental and climate change impacts*

### **Adjustment scenario:**

The effect of the redistribution of direct payments between farms would in itself have an important effect on the support to more environmentally sustainable and climate friendly farming. Grazing livestock farms and farms in least favoured areas would benefit from

the redistribution, which would to a certain extent be favourable for the maintenance of permanent grassland and all its environmental and climate action benefits, while more intensive crop production would be supported to a lesser degree.

#### **Integration scenario:**

Farms located in LFA/NHA would benefit both from the additional income support to areas with specific natural constraints in Pillar I and the move to a regional flat rate as well as the redistribution between Member States. This would be favourable for the continuation of farming in areas with a high risk of land abandonment, which is in turn positive for biodiversity.

The environmental effects of the "greening" component and streamlining of cross compliance, which would increase the environmental performance of the CAP as a whole in terms of soils, biodiversity, water balance, climate change mitigation and adaptation, and landscape amenities, are discussed in annex 2 on "Greening of the CAP")..

#### **Refocus scenario:**

The main environmental impacts of the end of direct support would be due to the changing territorial distribution of agricultural activity. Both the concentration of production in particularly productive areas and the abandonment of production and land in more marginal regions would have far reaching consequences for the environmental balance in these areas with, e.g. possible loss of biodiversity<sup>32</sup>. The extent of many of these impacts depends strongly also on whether and how policies of Pillar II would be adapted to mitigate the consequences.

With the end of direct payments, the enforcement and sanctioning mechanism of cross compliance would be lost to a large extent and the wide reach of the GAEC ensuring a minimum maintenance of land without economic use would be lost. However the gradual nature of phasing out of direct payments may make it possible to introduce over time other ways of contribution to a better enforcement of environmental legislation.

#### *12.2.3. International impacts*

#### **Adjustment scenario:**

The redistribution of direct payments between Member States and farmers should not affect the classification of EU support at WTO provided that it remains in line with WTO rules (in such a manner that farmer anticipation and effect on production level is avoided).

#### **Integration scenario:**

With respect to the targeting of direct payment, it will have to be ensured that all components of the payment are in line with WTO rules. This means in particular that the extent of coupled support would need to remain within clearly defined limits and the

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<sup>32</sup> See study "Scenar 2020; Scenario study on agriculture and the rural world" for European Commission – DG AGRI, December 2006, Contract No. 30 – CE – 0040087/00-08

elements used to define who is an "active farmer" need to respect WTO Green Box criteria, in particular they cannot imply an obligation to produce.

#### **Re-focus scenario:**

The WTO compatibility of CAP payments would not be affected.

#### *12.2.4. Administrative impacts*

#### **Adjustment scenario:**

In the first year of implementation of the new system, there would be an administrative burden associated with the redistribution (distribution of new entitlements and/or recalculation of the value of entitlements) and possibly transition (defining steps for progressive modifications in subsequent years for each farmer). However, this would be a one-off administrative impact.

#### **Integration scenario:**

In addition to the need of managing the redistribution in the first year of implementation of the new scheme, a number of the components for direct payments, such as capping, the definition of "active farmers" and the "greening" could be burdensome as additional control requirements could result from them.

On the other hand, the small farmer scheme would substantially reduce the administrative demands from the application for and granting of direct payments to such beneficiaries.

#### **Refocus scenario:**

In the long run, the phasing out of direct payments would bring administrative facilitation since the scheme would not have to be administered anymore.

### **12.3. Summary of overall impacts**

Table 25 provides a qualitative assessment of the three policy scenarios with regard to their impact on income, environment, the international dimension and administrative burden. A scale of +2 to -2 is used to rate which impact is deemed very positive (+2) to very negative (-2).

#### **Table 25: Overview of the impact of policy scenarios**



		<b>Adjustment</b>				<b>Integration</b>							<b>Refocus</b>
		Flat rate	Min 80%	Min 90% + obj criteria	MFF distrib. key	Small farmers scheme	Young farmer scheme	Capping	Greening	Additional support for NC	Definition active farmers	Coupled support	
		Effects as compared to status quo				Effects of each component as compared to MFF distribution key without any components							Effects as comp. to status quo
Income effect													
	EU27	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>				<b>-1</b>		<b>+1</b>		<b>-2</b>
	EU15	<b>-2</b>	<b>-1</b>	<b>-2</b>	<b>-1</b>				<b>-1</b>				<b>-2</b>
	EU12	<b>+2</b>	<b>+1</b>	<b>+2</b>	<b>+1</b>				<b>-2</b>				<b>-2</b>
	LFA	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>				<b>0</b>	<b>+1</b>		<b>+1</b>	<b>-2</b>
	Non-LFA	<b>+1</b>	<b>+1</b>	<b>+1</b>	<b>+1</b>				<b>-1</b>	<b>-1</b>			<b>-1</b>
	Arable farms	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>			<b>-1</b>	<b>-1</b>	<b>0</b>			<b>-1</b>
	Grazing livestock farms	<b>+2</b>	<b>+2</b>	<b>+2</b>	<b>+2</b>			<b>-1</b>	<b>+1</b>	<b>+1</b>		<b>+1</b>	<b>-2</b>
	Large farms							<b>-1</b>					<b>-1</b>
	Small farms					<b>+2</b>			<b>+1</b>				<b>-2</b>
	Young farmers						<b>+2</b>						
Environmental effects		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>+2</b>	<b>+1</b>	<b>0</b>	<b>+1</b>	<b>-2</b>
International effects		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>0</b>
Admin. effects -simplification		<b>+1</b>	<b>+1</b>	<b>+1</b>	<b>+1</b>	<b>+2</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-2</b>	<b>-1</b>	<b>+2</b>

## SUB-ANNEX 3A – Evaluation of income effect of direct support – Main results

### (1) SCOPE

The evaluation examines the effects of the direct support schemes laid down in Council Regulation (EC) No 1782/2003 on the income of farmers and answers how effective and efficient these schemes have been in ensuring a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture (Art. 39 of the Treaty of Lisbon). The evaluation also examines the coherence of direct payments with measures under the Single CMO and rural development measures with respect to the income objectives.

The evaluation covers the 27 EU Member States over the period since 1 January 2005 onwards, but it uses data going back to 2001.

### (2) METHODOLOGY

The analysis was carried out:

- **At the macro-economic level**, based on agricultural statistics from EUROSTAT at regional level (NUTS II);
- **At the micro-economic level**, based on farm data from the FADN database (Source: EU-FADN-DG AGRI L-3).

The analysis distinguished between seven agricultural sectors, the choices of implementation of the direct payment schemes in different Member States/regions, farm size, type of organisation and geographical location.

The following table provides a synthesis of the main issues covered by the evaluation and the tools used for addressing them:

Tools Issues	Statistical analysis	Update of FADN data (BU and RO, 2008)	Ordinary least square models	Probit regression	Quantile regression	Gini coefficient of concentration	Estimation of the effects of CMO measures	Literature Review	Panel of experts
Role of direct support in enhancing the farm business income of farmers	✓	✓	✓				✓		✓
Role of direct support in stabilising the income of farmers	✓			✓					✓
Role of direct support in improving the standard of living	✓	✓							
Role of direct support on the farm household total income								✓	✓

Issues \ Tools	Statistical analysis	Update of FADN data (BU and RO, 2008)	Ordinary least square models	Probit regression	Quantile regressions	Gini coefficient of concentration	Estimation of the effects of CMO measures	Literature Review	Panel of experts
Contribution to the economic viability of farms	✓	✓							✓
Efficiency in targeting the beneficiaries	✓	✓			✓	✓			✓
Relative income transfer efficiency			✓				✓		
Coherence between direct support and other CAP measures	✓		✓				✓		
Coherence between direct support and LFA compensatory allowance	✓	✓							

### (3) MAIN CONCLUSIONS

#### **Contribution of direct payments to achieving a fair standard of living for the agricultural community, by stabilising and enhancing the income of farmers**

*In terms of enhancing farmers' income, direct payments:*

- Contribute to enhancing the income of farmers;
- Play a particularly important role in generating income in grazing livestock specialist farms, field crops, mixed farms and dairy farms;
- Play also a role in strengthening the cohesion between regions, in particular in the sectors of field crops, milk, other grazing livestock and mixed farms;
- Allow a reduction of the existing gap between the average income per labour unit of small and large farms.

*In terms of stabilizing farmers' income, direct payments:*

- Make a positive and robust contribution to the stability of income. The highest effect on income stability is shown in the sectors which are the most supported by direct payments (field crops, other grazing livestock and mixed farms);
- Have a larger role for income stability in small farms in comparison with medium and large farms.

*In terms of ensuring a fair standard of living of the agricultural community, direct payments:*

- Help improving the standard of living of the farming community.

## **Role of direct payments for farmers' income according to farm location and the type of organisational form of holding**

Direct payments:

- Reduce the existing differences between farmers' income in non LFA areas and in LFA areas and the subgroup of mountain LFA areas;
- Have larger effects on income stability in LFA areas in comparison to non-LFA areas;
- Contribute to improving the standard of living of the agricultural communities in the LFA areas and in the subgroup of mountain LFA areas;
- Appear to have a larger income stabilizing effect in individual farms and farms organised as partnerships compared to farms having other types of organisational forms.

### **Direct payments and economic viability**

- Direct payments are vital in ensuring the economic viability of farms in field crops, other grazing livestock, mixed farming and in part the milk sector;
- Farms in which the unpaid labour component is modest (FWU/AWU <30%) are relatively more efficient in the EU15 and less efficient in the EU12. This suggests that the strategic goals in these classes of farms are completely different: more targeted to economic results in the EU15 and more focused on social aspects in the EU12. In other words, maximisation of profit in the first case, and maximisation of employment in the second;
- The hybrid SPS model has probably contributed to a stronger growth of the return on investments (ROI) and of the return on assets (ROA) in the EU15 after the reform in comparison with the pre-reform period.

### **Efficiency of direct payments**

- At global level, the efficiency of direct payments is quite high (The analysis indicates that in 2007, 82% of the expenditure is going to farms which, even with direct payments, do not reach the fair standard of living). However, at sector level, and even more at regional level, the system generates very uneven levels of efficiency. In a large number of regions the redistribution of surpluses (payments made to farmers whose income bypasses the benchmark) generated by large margins of inefficiency would make it possible to attain a fair standard of living for a lot more farmers in the same region and/or in other regions (In 36.4% of the EU27 regions, the surplus is under 10% of the total expenditure and in 16.4% of regions the surplus is above 30% of the total expenditure);
- Direct payments contribute to reducing the disparities among farmers' income across the EU, but an uneven income distribution persists in most sectors and in most geographical areas;
- Direct payments have a larger positive effect on income equality in the regions applying the hybrid and the regional SPS models than in the regions applying the historic SPS model;
- Coupled payments are not efficient in respect to the objective of reducing the disparities between farmers' income;

- Regarding the decoupled payments, the results of the modelling at the macro-economic and the micro-economic level are not completely similar. While the results of the regressions at macro-economic level allow us to conclude that this type of payments contribute to decreasing income disparities, the results of the regressions run at micro-economic level are less clear-cut.

#### **Coherence of direct payments with other CAP measures: measures under the Single CMO and rural development measures**

- Direct payments are coherent with the other measures in relation to the objective of enhancing farmers' income: the three types of support measures complement each other as they substitute each other over time in order to maintain the overall level of support roughly constant;
- Direct payments have been coherent with the measures under the Single CMO as farm income support tools;
- Concerning the rural development measures, the results of the regression estimates are less clear-cut;
- The three types of policy instruments are coherent with respect to contributing to more stable incomes. Coherence between direct payments and CMO support appears to be higher than between direct payments and rural development measures in most types of farming;
- Direct payments (at EU level considering all regions and all types of farming) are coherent with the compensatory allowance given to specific farms within a certain LFA area (i.e. the income of farmers receiving the compensatory allowance is lower or equal to the income of other farmers either not located in LFA or located in LFA but not receiving the compensatory allowance). However, the analysis by type of farming and by groups of regions according to the SPS implementation model indicates that there are also cases of overlap of direct payments with the compensatory allowance (the income of farmers receiving the compensatory allowance is higher than the income of other farmers);
- After the reform, in the groups of regions implementing the SPS hybrid model (with a prevalent regional component) and of regions implementing the regional model, the degree of coherence between direct payments and compensatory allowance increases.

#### **(4) RECOMMENDATIONS**

- The comparative analysis across types of farming shows that the lowest income levels per labour unit are found (besides the other grazing livestock sector) in the two sectors benefitting to a very limited extent or not at all from direct support, namely horticulture and other permanent crops. In the EU15 Member States, the average income per labour unit of these sectors (post-reform period) is about 22% lower than the EU15 average of all sectors. Furthermore, both sectors show the highest risk in terms of farm viability (in 37% and 21% of the regions, respectively for the horticultural and the other permanent crops sectors, average returns on assets are negative). In the light of these results, we recommend to extend direct payments to include farms operating in these sectors.
- The analysis has revealed that in the various regions the income of most farmers does not reach the reference benchmark (regional GDP per employee). This means that direct payments are basically granted to farmers who need them, therefore, efficiency of direct

payments' expenditure can be considered as good. However, the analysis has also revealed that margins of inefficiency exist (direct payments are granted to a certain share of farmers whose income is above the benchmark), especially in certain sectors (i.e. in the field crops sector) and in certain regions. Therefore, and taking into account also other objectives pursued with direct payments (e.g. public goods provision), it seems reasonable to recommend the identification of adequate assignment criteria and appropriate instruments able to redistribute at least part of the financial surplus generated by inefficiency to farmers who are most in need (i.e. for whom the current level of direct payments does not allow reaching the benchmark), regardless of the sector. A more efficient allocation of the expenditure would also contribute to re-aligning agricultural and other population income distribution curves.

- It was not possible to evaluate the role played by direct payments in farm household total income, in spite of noticeable interest in this matter. The analysis of the existing literature (studies and statistics) reveals the existence of heterogeneous definitions of agricultural households and, thus, of a variety of measurement criteria and data collection instruments (where they exist). In essence, therefore, the high heterogeneity of definitions and methods makes a combined reading of the existing information impossible. Consequently, it is recommended that a common definition of farm household and farm household total income is provided and that harmonised statistics are implemented with respect to both the official national and EU statistics and the FADN.

**SUB-ANNEX 3B - Overview of the implementation of direct payments under the CAP in Member States in 2010 (Reg. 73/2009) (\*)**

**November 2010**

<b>Member States</b>	<b>Start SPS</b>	<b>Regions</b>	<b>Model SPS / SAPS</b>	<b>Min. Requirements</b>	<b>Sectors remaining coupled and transitional coupled payments of the Fruit &amp; Vegetables sector</b>	<b>Specific Support under Articles 68 - 72</b>
<b>Belgium</b>	2005	Zone Nord: Flanders + Brussels	SPS historical	100€	Suckler cow premium 100% Slaughter premium calves 100% Protein crops, Flax for Fibre	For a better quality—all sectors 68(1)(a)(ii)
	2005	Zone Sud: Wallonia	SPS historical	100€	Suckler cow premium 100% Protein Crops, Flax for Fibre	Grassland premium – breeding 68(1)(b)
<b>Bulgaria</b>			SAPS	0,5 ha 100 €	F&V: Transitional soft fruit payments 100%	In the dairy sector 68(1)(b)
<b>Czech Republic</b>			SAPS	1 ha	Separate sugar payments 100% F&V: Separate payment for tomatoes intended for processing 100%	Aid for dairy farmers 68(1)(b)
<b>Denmark</b>	2005	one region	SPS dynamic hybrid	2 ha 300 €Sp	Special male bovine premium 75% Sheep and goat premium 50% Starch Potato, Dried fodder, Flax for Fibre	Agri-environment Measures 68(1)(a)(v) Perennial Energy Crops 68(1)(a)(i)
<b>Germany</b>	2005	Bundesländer (Berlin included in Brandenburg, Bremen in Lower Saxony and Hamburg in Schleswig-Holstein)	SPS dynamic hybrid moving to a flat rate	1 ha	Protein Crops, Nuts, Starch Potato, Dried fodder, Flax for Fibre	Grassland premium in dairy sector 68(1)(b)
<b>Estonia</b>			SAPS	1 ha		In the dairy sector 68(1)(b)
<b>Ireland</b>	2005	-	SPS historical	100 €	Protein Crops, Dried Fodder	Grassland Sheep Scheme and Grassland Dairy Efficiency 68(1)(b) Conservation in the Burren 68(1)(a)(i)

<b>Member States</b>	<b>Start SPS</b>	<b>Regions</b>	<b>Model SPS / SAPS</b>	<b>Min. Requirements</b>	<b>Sectors remaining coupled and transitional coupled payments of the Fruit &amp; Vegetables sector</b>	<b>Specific Support under Articles 68 - 72</b>
<b>Greece</b>	2006	-	SPS historical	200 €	F&V: Until end 2010: 30% of the envelope for tomatoes intended for processing Cotton, Sugar, Dried fodder Small Aegean Islands 100%	Improvement of quality of olive oil, durum wheat 68(1)(a)(ii) LFA producers in meat sectors (beef, sheep and goat) 68(1)(b) Restructuring programmes in LFA Mountainous areas 68(1)(c)
<b>Spain</b>	2006	-	SPS historical	100 €	Suckler cow premium 100% Slaughter premium calves 100% Slaughter premium bovine adults 40% Seeds, Protein Crops, Rice, Nuts, Cotton 35%, Sugar, Dried fodder, Flax for Fibre, Starch Potato 60% Outermost regions 100% F&V: Until end 2010: 50% of the envelope for tomatoes intended for processing	Improving quality of legumes, tobacco sheep and goat farmers and milk products 68(1)(a)(ii) National programme crop rotation 68(1)(a)(v) Aid to sheep and goat producers and milk producers in LFA 68(1)(b) Ex article 69 measures (beef ,cotton, sugar, milk) 72(3)
<b>France</b>	2006	-	SPS historical	100 €	Suckler cow premium 75% Seeds (some species), Protein Crops, Rice, Nuts, Starch Potato, Dried fodder, Flax for Fibre Outermost regions 100% F&V: Until end 2011: 50% for tomatoes intended for processing Until end 2010: 98% of national envelope for orchards producing prunes, peaches, and pears intended for processing From 2011 until end 2012: 75% of national envelope for orchards producing prunes, peaches, and pears intended for processing	Additional aid for protein crops 68(1)(a)(i) Aid for quality of durum wheat 68(1)(a)(ii) To maintain organic farming 68(1)(a)(v) Diversification of crop rotation 68(1)(a)(v) Aid for calves from suckling cows and for organic labelled calves; aid for sheep and goat producers; aid for milk producers in mountain areas 68(1)(b) Crop harvest insurance 68(1)(d)



Member States	Start SPS	Regions	Model SPS / SAPS	Min. Requirements	Sectors remaining coupled and transitional coupled payments of the Fruit & Vegetables sector	Specific Support under Articles 68 - 72
Italy	2005	-	SPS historical	100 €	Seeds, Protein Crops, Rice, Nuts, Sugar, Dried Fodder, Flax for Fibre F&V: Until end 2010: 50% for tomatoes intended for processing Until end 2010: 100% for pears, peaches and prunes intended for processing. From 2011 until end 2012: 75% of envelope for prunes	Improvement of quality (beef and veal; sheep and goat meat; olive oil; dairy products; tobacco; sugar; floricultural products) 68(1)(a)(ii) Crops rotation 68(1)(a)(v) Insurance payments for harvests, animals and plants 68(1)(d)
Cyprus			SAPS	0,3 ha	F&V: Until end 2010: 100% of national envelope for citrus fruits Until end 2012: 75% of national envelope for citrus fruits	
Latvia			SAPS	1 ha	Separate sugar payments 75% F&V: Transitional soft fruit payment 100%	In the dairy sector 68(1)(b)
Lithuania			SAPS	1 ha	Separate sugar payments 100% F&V: Transitional soft fruit payment 100%	
Luxemburg	2005	one region	SPS static hybrid	100 €	None	
Hungary			SAPS	1 ha 0,3 ha for orchards and vineyards	Separate sugar payments 100% F&V: Separate F&V payments (tomatoes and other fruits) 100% Transitional soft fruit payment 100%	In the dairy sector 68(1)(b) For tobacco and fresh fruit and vegetables growing areas subject to restructuring and development programmes 68(1)(c)
Malta	2007	one region	SPS regional	0,1 ha 100 €Sp	None	
Netherlands	2006	-	SPS historical	500 €	Seeds for fibre flax Starch Potato, Dried Fodder, Flax for Fibre	For transport over water 68(1)(a)(i) Animal welfare 68(1)(a)(iv) Electronic I&R for sheep 68(1)(b) Weather insurance 68(1)(d)

Member States	Start SPS	Regions	Model SPS / SAPS	Min. Requirements	Sectors remaining coupled and transitional coupled payments of the Fruit & Vegetables sector	Specific Support under Articles 68 - 72
<b>Austria</b>	2005	-	SPS historical	100 €	Suckler cow premium 100% Nuts, Starch Potato, Dried Fodder, Flax for Fibre	Dairy cow premium 68(1)(b)
<b>Poland</b>			SAPS	1 ha	Separate sugar payments 100% F&V: Separate F&V payment for tomatoes 100% Transitional soft fruit payment 100%	For cultivating pulses and herbage legumes 68(1)(a)(i) For keeping cows in South-eastern Poland and sheep in Southern Poland 68(1)(b)
<b>Portugal</b>	2005	-	SPS historical	0,3 ha	Suckler cow premium 100% Slaughter premium calves 100% Slaughter premium bovine adults 40% Sheep and goat premium 50% Seeds 100% Protein Crops, Rice, Nuts, Cotton, Sugar, Dried Fodder Outermost regions 100% F&V: Until end 2011: 50% of envelope for tomatoes intended for processing	Maintaining of extensive farming systems based on native breeds (beef, sheep, goats) 68(1)(a)(i) Quality improvement of agricultural products (crops and animals) 68(1)(a)(ii) Agri-environmental measures for protection of olive national patrimony and support to extensive pasturing 68(1)(a)(v) To economic vulnerable types of agriculture in milk and sheep sectors 68(1)(b)
<b>Romania</b>			SAPS	1 ha	Separate sugar payments 100% F&V: Until end 2011: 50% of envelope for tomatoes intended for processing	For improving quality in the organic farming sector 68(1)(a)(ii) To the milk sector in LFA 68(1)(b)
<b>Slovenia</b>	2007	one region	SPS regional	0,3 ha / 100€Sp	Special male bovine premium 65% Protein Crops, Nuts	For extensive rearing of female bovine animals and dairy payment for farmers in mountain areas and on steep hills 68(1)(b) Preserving animal rearing on farms with permanent pastures 68(1)(c)
<b>Slovakia</b>			SAPS	1 ha	Separate sugar payments 50 % F&V: Separate F&V payment: 67% (Art.127 of Reg. 73/2009) Separate transitional F&V payment: 33% of envelope for tomatoes intended for processing (Art. 128 of Reg. 73/2009).	In the dairy sector 68(1)(b)

<b>Member States</b>	<b>Start SPS</b>	<b>Regions</b>	<b>Model SPS / SAPS</b>	<b>Min. Requirements</b>	<b>Sectors remaining coupled and transitional coupled payments of the Fruit &amp; Vegetables sector</b>	<b>Specific Support under Articles 68 - 72</b>
<b>Finland</b>	2006	three regions (based on reference yield)	SPS dynamic hybrid moving to a flat rate	200 €	Sheep and goat premium 50% Seeds (timothy seed), Protein Crops, Starch Potato, Dried Fodder; Flax for Fibre	Supporting beef and veal production; dairy cow premium 68(1)(b) Ex-Art 69 measures (arable crops) 72(3)
<b>Sweden</b>	2005	five regions (based on reference yield)	SPS static hybrid	4 ha 100 €Sp	Special male bovine premium 74.55% Starch Potato, Dried Fodder	Ex-Art 69 measures: Improving quality and marketing (all sectors) 72(3)

Member States	Start SPS	Regions	Model SPS / SAPS	Min. Requirements	Sectors remaining coupled and transitional coupled payments of the Fruit & Vegetables sector	Specific Support under Articles 68 - 72
United Kingdom	2005	England normal	SPS dynamic hybrid moving to a flat rate	1 ha 200€Sp	Protein Crops, Nuts Dried Fodder, Flax for Fibre	
	2005	England - moorland	SPS dynamic hybrid moving to a flat rate	1 ha 200€Sp	Protein Crops, Nuts Dried Fodder, Flax for Fibre	
	2005	England - SDA minus moorland	SPS dynamic hybrid moving to a flat rate	1 ha 200€Sp	Protein Crops, Nuts Dried Fodder, Flax for Fibre	
	2005	Scotland	SPS historical	3 ha 100€Sp	Dried Fodder, Flax for Fibre	Ex-art 69 measures:  High quality beef 72(3)
	2005	Wales	SPS historical	1 ha 100€Sp	Dried Fodder, Flax for Fibre	
	2005	Northern Ireland	SPS static hybrid	100 €	Dried Fodder, Flax for Fibre	

Abbreviations: SPS Single Payment Scheme SAPS Single Area Payment Scheme F&V Fruit and Vegetables Sp Special entitlements

(\*) For the statutory dates and amounts of decoupling please see Annex XI and XII of Regulation (EC) No 73/2009

N.B.: Hybrid model consists of elements from the regional and the historical model

## **SUB-ANNEX 3C – Detailed results on income and methodology for simulations based on FADN data**

### **Assumptions and methodology of partial analysis based on FADN**

#### **General**

The simulation is conducted with the model AIDS7K, which has been developed in DG AGRI. The analysis is based on 2007 FADN data. The model is able to simulate the impact of the change of DP schemes on farm income and DP for the approximately 81 000 sample farms included in FADN. The impact on the sector level e.g. EU-27 is measured by aggregating the individual data using the FADN weighting scheme. The model is static. This means that the structure of farms and the allocation of land do not change in different scenarios. Outmost regions are not covered in this analysis because it is difficult to separate the POSEI payments from the rest of the EU DP received by the farmers in these regions.

For the calculation of farm income both changes in output and intermediate consumption and DP are taken into account at individual farm level. The coefficients for agricultural outputs and inputs are mainly derived from medium term projections of DG AGRI using from AGLINK COSIMO, assuming the removal of sugar beet quotas. For certain agricultural outputs not covered by AGLINK (vegetable, flowers, olive and wine), the coefficients were set based on the analysis of long historical price series.

For the purpose of the analysis it was necessary to calibrate the model in several ways in order ensure comparability of the results between the policy scenarios.

First, the weighting coefficients in the FADN were adjusted in order to adjust the eligible area in the FADN to the one reported by IACS. This was necessary because the DP levels in the scenarios were calculated based on the information on eligible area in IACS and, thus, differences in the representation of the area would have lead to distorted results. Secondly, the aggregated amount of DP in the status quo scenario was adjusted proportionally in order to be in line with the forecasted budget in the year 2020 on which the calculation of the DP level in the scenarios is based.

#### **Partial analysis**

In the frame work of the impact assessment a large number of partial analyses assessing the effect of different options for the re-distribution of DP, the capping of DP, the support of farmers in areas with specific natural constrains and small farmers were conducted.

For all partial analyses with the exception of the options for the capping it is made sure that the total amount of DP is approximately the same for all options. For this purpose the level of the area payments and the level coupled payments are reduced taking into account the amount of payments distributed via the schemes to be assessed (payments to small farmers, payment to farmers in areas with specific natural constraints). In the case of the options for the capping of DP it was assumed that the capped amounts are not re-distributed to the other farmers. Thus, in this case the total amount of DP differs among the options depending on the amount capped.

## Redistribution options

All comparisons are done to the **Status quo** in 2020. Options of redistribution are described in section 4.1.

### Impact per EU group and per Member States

	Change in FNVA per AWU in comparison with the status quo in 2020			
	1	2	3	4
	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
EU-15	-2,1%	-0,7%	-0,5%	-1,3%
EU-12	8,6%	2,4%	1,5%	5,2%
EU-27	-0,1%	-0,1%	-0,1%	-0,1%

#### INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

EU12	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
<b>MARKET</b>									
Output - €/farm	29.202	29.202	0%	29.202	0%	29.202	0%	29.202	0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>									
Total Pillar 1 payments - €/farm	4.182	5.342	27,7%	4.500	8%	4.384	5%	4.888	17%
Basic rate / decoupled - €/farm	4.178	5.338	28%	4.496	8%	4.380	5%	4.884	17%
Coupled payments - €/farm	4	4	1%	4	-5%	4	-5%	4	-5%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	5.044	6.205	23%	5.362	6%	5.246	4%	5.750	14%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
<b>COSTS</b>									
Total operating costs, depreciation and taxes	20.736	20.736	0%	20.736	0%	20.736	0%	20.736	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	5.533	5.756	4%	5.593	1%	5.571	1%	5.668	2%
External factor costs - €/farm	3.539	3.653	3%	3.576	1%	3.563	1%	3.609	2%
Own capital - €/farm	2.043	2.152	5%	2.066	1%	2.057	1%	2.108	3%
<b>INCOME</b>									
Farm Net Value Added - €/farm	13.511	14.671	9%	13.829	2%	13.713	1%	14.217	5%
Farm Net Value Added per AWU - €/AWU	10.041	10.904	9%	10.278	2%	10.191	1%	10.566	5%
Remuneration for family labour - €/farm	7.978	8.915	12%	8.236	3%	8.142	2%	8.549	7%
Remuneration for family labour - €/FWU	7.116	7.739	9%	7.267	2%	7.206	1%	7.493	5%
Share of Pillar 1 payments in FNVA	31%	36%	18%	33%	5%	32%	3%	34%	11%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

EU15	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	93.890	93.890	0%	93.890	0%	93.890	0%	93.890	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	11.507	10.599	-7.9%	11.200	-3%	11.284	-2%	10.918	-5%
Basic rate / decoupled - €/farm	10.979	10.060	-8%	10.670	-3%	10.754	-2%	10.388	-5%
Coupled payments - €/farm	528	539	2%	531	0%	531	0%	530	0%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	13.736	12.827	-7%	13.429	-2%	13.513	-2%	13.147	-4%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	63.878	63.878	0%	63.878	0%	63.878	0%	63.878	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	22.304	22.161	-1%	22.270	0%	22.287	0%	22.218	0%
External factor costs - €/farm	15.071	14.967	-1%	15.041	0%	15.054	0%	15.014	0%
Own capital - €/farm	7.189	7.150	-1%	7.185	0%	7.189	0%	7.160	0%
INCOME									
Farm Net Value Added - €/farm	43.747	42.839	-2%	43.440	-1%	43.525	-1%	43.158	-1%
Farm Net Value Added per AWU - €/AWU	34.232	33.521	-2%	33.992	-1%	34.058	-1%	33.771	-1%
Remuneration for family labour - €/farm	21.444	20.678	-4%	21.170	-1%	21.237	-1%	20.940	-2%
Remuneration for family labour - €/FWU	22.032	21.284	-3%	21.745	-1%	21.810	-1%	21.522	-2%
Share of Pillar 1 payments in FNVA	26%	25%	-6%	26%	-2%	26%	-1%	25%	-4%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

EU-27	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	66.678	66.678	0%	66.678	0%	66.678	0%	66.678	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	8.426	8.387	-0.5%	8.382	-1%	8.382	-1%	8.382	-1%
Basic rate / decoupled - €/farm	8.118	8.074	-1%	8.073	-1%	8.073	-1%	8.073	-1%
Coupled payments - €/farm	308	314	2%	309	0%	309	0%	309	0%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	10.079	10.041	0%	10.036	0%	10.035	0%	10.035	0%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	45.729	45.729	0%	45.729	0%	45.729	0%	45.729	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.249	15.260	0%	15.255	0%	15.255	0%	15.256	0%
External factor costs - €/farm	10.220	10.208	0%	10.218	0%	10.220	0%	10.216	0%
Own capital - €/farm	5.024	5.047	0%	5.032	0%	5.030	0%	5.035	0%
INCOME									
Farm Net Value Added - €/farm	31.028	30.990	0%	30.984	0%	30.984	0%	30.984	0%
Farm Net Value Added per AWU - €/AWU	23.751	23.722	0%	23.717	0%	23.717	0%	23.717	0%
Remuneration for family labour - €/farm	15.779	15.730	0%	15.729	0%	15.729	0%	15.728	0%
Remuneration for family labour - €/FWU	15.624	15.464	-1%	15.525	-1%	15.535	-1%	15.494	-1%
Share of Pillar 1 payments in FNVA	27%	27%	0%	27%	0%	27%	0%	27%	0%

# Impact per type of farming at EU level

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Fieldcrops	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	57.563	57.563	0%	57.563	0%	57.563	0%	57.563	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	11.865	11.089	-7%	10.965	-8%	10.942	-8%	11.001	-7%
Basic rate / decoupled - €/farm	11.616	10.827	-7%	10.706	-8%	10.683	-8%	10.742	-8%
Coupled payments - €/farm	249	262	5%	259	4%	259	4%	259	4%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	13.241	12.465	-6%	12.341	-7%	12.318	-7%	12.377	-7%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	40.161	40.161	0%	40.161	0%	40.161	0%	40.161	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.918	15.780	-1%	15.757	-1%	15.754	-1%	15.763	-1%
External factor costs - €/farm	10.801	10.701	-1%	10.697	-1%	10.697	-1%	10.700	-1%
Own capital - €/farm	5.153	5.116	-1%	5.097	-1%	5.094	-1%	5.100	-1%
INCOME									
Farm Net Value Added - €/farm	30.642	29.866	-3%	29.742	-3%	29.719	-3%	29.778	-3%
Farm Net Value Added per AWU - €/AWU	25.162	24.524	-3%	24.422	-3%	24.404	-3%	24.452	-3%
Remuneration for family labour - €/farm	14.725	14.087	-4%	13.985	-5%	13.966	-5%	14.016	-5%
Remuneration for family labour - €/FWU	15.789	14.764	-6%	14.825	-6%	14.828	-6%	14.780	-6%
Share of Pillar 1 payments in FNVA	39%	37%	-4%	37%	-5%	37%	-5%	37%	-5%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Horticulture	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	186.202	186.202	0%	186.202	0%	186.202	0%	186.202	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	1.177	1.345	14%	1.417	20%	1.415	20%	1.383	17%
Basic rate / decoupled - €/farm	1.107	1.268	15%	1.339	21%	1.337	21%	1.305	18%
Coupled payments - €/farm	70	78	11%	78	11%	78	11%	78	11%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	1.416	1.584	12%	1.655	17%	1.654	17%	1.621	15%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	97.907	97.907	0%	97.907	0%	97.907	0%	97.907	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	38.719	38.749	0%	38.760	0%	38.760	0%	38.754	0%
External factor costs - €/farm	33.701	33.723	0%	33.733	0%	33.733	0%	33.729	0%
Own capital - €/farm	4.965	4.972	0%	4.972	0%	4.973	0%	4.971	0%
INCOME									
Farm Net Value Added - €/farm	89.711	89.879	0%	89.951	0%	89.949	0%	89.917	0%
Farm Net Value Added per AWU - €/AWU	36.197	36.265	0%	36.293	0%	36.293	0%	36.280	0%
Remuneration for family labour - €/farm	50.992	51.131	0%	51.191	0%	51.189	0%	51.163	0%
Remuneration for family labour - €/FWU	45.604	45.726	0%	45.783	0%	45.782	0%	45.757	0%
Share of Pillar 1 payments in FNVA	1%	1%	14%	2%	20%	2%	20%	2%	17%



# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Wine	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	89.602	89.602	0%	89.602	0%	89.602	0%	89.602	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	2.181	3.752	72%	3.998	83%	4.021	84%	3.871	78%
Basic rate / decoupled - €/farm	2.134	3.704	74%	3.952	85%	3.975	86%	3.825	79%
Coupled payments - €/farm	47	48	2%	46	-1%	46	-1%	46	-2%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	2.765	4.337	57%	4.583	66%	4.606	67%	4.456	61%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	40.997	40.997	0%	40.997	0%	40.997	0%	40.997	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	23.932	24.236	1%	24.288	1%	24.292	2%	24.261	1%
External factor costs - €/farm	16.949	17.077	1%	17.096	1%	17.099	1%	17.090	1%
Own capital - €/farm	7.270	7.447	2%	7.480	3%	7.481	3%	7.459	3%
INCOME									
Farm Net Value Added - €/farm	51.370	52.941	3%	53.188	4%	53.211	4%	53.061	3%
Farm Net Value Added per AWU - €/AWU	33.811	34.846	3%	35.008	4%	35.023	4%	34.924	3%
Remuneration for family labour - €/farm	27.438	28.706	5%	28.900	5%	28.918	5%	28.799	5%
Remuneration for family labour - €/FWU	30.023	31.375	5%	31.603	5%	31.626	5%	31.487	5%
Share of Pillar 1 payments in FNVA	4%	7%	67%	8%	77%	8%	78%	7%	72%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Other permanent crops	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	34.943	34.943	0%	34.943	0%	34.943	0%	34.943	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	2.530	2.240	-11%	2.409	-5%	2.408	-5%	2.300	-9%
Basic rate / decoupled - €/farm	2.481	2.189	-12%	2.360	-5%	2.359	-5%	2.251	-9%
Coupled payments - €/farm	49	50	3%	49	0%	49	0%	49	0%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	2.807	2.516	-10%	2.686	-4%	2.685	-4%	2.577	-8%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	14.543	14.543	0%	14.543	0%	14.543	0%	14.543	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	8.849	8.796	-1%	8.831	0%	8.831	0%	8.809	0%
External factor costs - €/farm	5.480	5.481	0%	5.486	0%	5.486	0%	5.483	0%
Own capital - €/farm	3.317	3.265	-2%	3.294	-1%	3.294	-1%	3.275	-1%
INCOME									
Farm Net Value Added - €/farm	23.207	22.917	-1%	23.086	-1%	23.085	-1%	22.977	-1%
Farm Net Value Added per AWU - €/AWU	21.006	20.743	-1%	20.897	-1%	20.896	-1%	20.798	-1%
Remuneration for family labour - €/farm	14.358	14.120	-2%	14.255	-1%	14.254	-1%	14.168	-1%
Remuneration for family labour - €/FWU	17.318	17.021	-2%	17.187	-1%	17.186	-1%	17.081	-1%
Share of Pillar 1 payments in FNVA	11%	10%	-10%	10%	-4%	10%	-4%	10%	-8%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Milk	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	101.964	101.964	0%	101.964	0%	101.964	0%	101.964	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	10.824	9.500	-12%	9.791	-10%	9.752	-10%	9.739	-10%
Basic rate / decoupled - €/farm	10.713	9.390	-12%	9.682	-10%	9.644	-10%	9.630	-10%
Coupled payments - €/farm	111	110	-1%	109	-2%	108	-2%	108	-3%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	14.070	12.746	-9%	13.037	-7%	12.998	-8%	12.984	-8%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	73.758	73.758	0%	73.758	0%	73.758	0%	73.758	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	20.148	19.956	-1%	19.991	-1%	19.984	-1%	19.989	-1%
External factor costs - €/farm	12.654	12.528	-1%	12.578	-1%	12.578	-1%	12.567	-1%
Own capital - €/farm	7.244	7.177	-1%	7.162	-1%	7.155	-1%	7.171	-1%
INCOME									
Farm Net Value Added - €/farm	42.276	40.953	-3%	41.243	-2%	41.205	-3%	41.191	-3%
Farm Net Value Added per AWU - €/AWU	29.899	28.963	-3%	29.168	-2%	29.141	-3%	29.131	-3%
Remuneration for family labour - €/farm	22.128	20.996	-5%	21.253	-4%	21.220	-4%	21.202	-4%
Remuneration for family labour - €/FWU	17.756	16.761	-6%	17.001	-4%	16.990	-4%	16.942	-5%
Share of Pillar 1 payments in FNVA	26%	23%	-9%	24%	-7%	24%	-8%	24%	-8%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Other grazing livestock	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	53.067	53.067	0%	53.067	0%	53.067	0%	53.067	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	12.094	14.745	22%	14.725	22%	14.779	22%	14.687	21%
Basic rate / decoupled - €/farm	10.769	13.410	25%	13.413	25%	13.466	25%	13.375	24%
Coupled payments - €/farm	1.324	1.335	1%	1.312	-1%	1.313	-1%	1.311	-1%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	16.272	18.923	16%	18.904	16%	18.957	17%	18.865	16%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	42.669	42.669	0%	42.669	0%	42.669	0%	42.669	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	12.467	13.008	4%	12.994	4%	13.005	4%	12.991	4%
External factor costs - €/farm	6.410	6.706	5%	6.719	5%	6.727	5%	6.714	5%
Own capital - €/farm	6.180	6.425	4%	6.397	4%	6.401	4%	6.400	4%
INCOME									
Farm Net Value Added - €/farm	26.670	29.322	10%	29.302	10%	29.355	10%	29.264	10%
Farm Net Value Added per AWU - €/AWU	20.688	22.745	10%	22.730	10%	22.771	10%	22.700	10%
Remuneration for family labour - €/farm	14.204	16.313	15%	16.308	15%	16.350	15%	16.272	15%
Remuneration for family labour - €/FWU	12.633	14.488	15%	14.507	15%	14.547	15%	14.463	14%
Share of Pillar 1 payments in FNVA	45%	50%	11%	50%	11%	50%	11%	50%	11%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Granivores	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	184.342	184.342	0%	184.342	0%	184.342	0%	184.342	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	5.155	4.880	-5%	4.902	-5%	4.949	-4%	4.912	-5%
Basic rate / decoupled - €/farm	5.084	4.807	-5%	4.831	-5%	4.878	-4%	4.842	-5%
Coupled payments - €/farm	71	73	2%	71	-1%	71	-1%	71	-1%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	6.011	5.736	-5%	5.758	-4%	5.805	-3%	5.768	-4%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	155.276	155.276	0%	155.276	0%	155.276	0%	155.276	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	25.262	25.218	0%	25.211	0%	25.221	0%	25.218	0%
External factor costs - €/farm	18.418	18.373	0%	18.393	0%	18.396	0%	18.386	0%
Own capital - €/farm	6.573	6.574	0%	6.548	0%	6.553	0%	6.561	0%
INCOME									
Farm Net Value Added - €/farm	35.078	34.803	-1%	34.825	-1%	34.872	-1%	34.835	-1%
Farm Net Value Added per AWU - €/AWU	23.347	23.164	-1%	23.179	-1%	23.210	-1%	23.185	-1%
Remuneration for family labour - €/farm	9.816	9.584	-2%	9.613	-2%	9.651	-2%	9.616	-2%
Remuneration for family labour - €/FWU	12.251	12.018	-2%	12.045	-2%	12.085	-1%	12.048	-2%
Share of Pillar 1 payments in FNVA	15%	14%	-5%	14%	-4%	14%	-3%	14%	-4%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Mixed	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	52.658	52.658	0%	52.658	0%	52.658	0%	52.658	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	7.740	7.780	1%	7.572	-2%	7.586	-2%	7.697	-1%
Basic rate / decoupled - €/farm	7.494	7.532	1%	7.328	-2%	7.342	-2%	7.453	-1%
Coupled payments - €/farm	246	248	1%	244	-1%	244	-1%	244	-1%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	9.186	9.226	0%	9.019	-2%	9.032	-2%	9.143	0%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	42.674	42.674	0%	42.674	0%	42.674	0%	42.674	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	11.061	11.086	0%	11.042	0%	11.045	0%	11.068	0%
External factor costs - €/farm	7.476	7.433	-1%	7.444	0%	7.447	0%	7.444	0%
Own capital - €/farm	3.598	3.666	2%	3.611	0%	3.610	0%	3.636	1%
INCOME									
Farm Net Value Added - €/farm	19.171	19.210	0%	19.003	-1%	19.017	-1%	19.127	0%
Farm Net Value Added per AWU - €/AWU	14.909	14.940	0%	14.779	-1%	14.789	-1%	14.875	0%
Remuneration for family labour - €/farm	8.109	8.125	0%	7.961	-2%	7.972	-2%	8.059	-1%
Remuneration for family labour - €/FWU	7.281	7.224	-1%	7.101	-2%	7.118	-2%	7.175	-1%
Share of Pillar 1 payments in FNVA	40%	40%	0%	40%	-1%	40%	-1%	40%	0%

## Impact per LFA/non LFA zones at EU level

		Change in FNVA per AWU in comparison with the status quo in 2020				
		Base	1	2	3	4
		Status quo € per AWU	EU flat rate	Min 80%	MFF distribution key	Min 90% and objective criteria
(1) not in less-favoured areas	not in less-favoured areas	23.053	-2,8%	-2,9%	-3,0%	-2,8%
(2) in less-favoured not mountain areas	in less-favoured not mountain areas	22.972	4,4%	2,5%	2,7%	3,2%
(3) in less-favoured mountain areas	in less-favoured mountain areas	21.748	4,4%	7,3%	7,2%	5,8%

### INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

not in less-favoured areas		Base	1		2		3		4	
		Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
		2020	2020	/base	2020	/base	2020	/base	2020	/base
<b>MARKET</b>										
Output - €/farm		70.140	70.140	0%	70.140	0%	70.140	0%	70.140	0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>										
Total Pillar 1 payments - €/farm		8.340	7.437	-11%	7.405	-11%	7.394	-11%	7.433	-11%
Basic rate / decoupled - €/farm		8.155	7.249	-11%	7.218	-11%	7.206	-12%	7.246	-11%
Coupled payments - €/farm		184	188	2%	188	2%	188	2%	187	1%
Greening - €/farm		0	0	-	0	-	0	-	0	-
Natural handicap - €/farm		0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm		0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm		9.032	8.129	-10%	8.097	-10%	8.086	-10%	8.125	-10%
Amounts transferred to Pillar II or capped - €/farm		0	0	-	0	-	0	-	0	-
<b>COSTS</b>										
Total operating costs, depreciation and taxes		47.258	47.258	0%	47.258	0%	47.258	0%	47.258	0%
Estimated costs for greening - €/farm		0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids		16.090	15.928	-1%	15.920	-1%	15.918	-1%	15.926	-1%
External factor costs - €/farm		11.614	11.497	-1%	11.505	-1%	11.506	-1%	11.505	-1%
Own capital - €/farm		4.466	4.421	-1%	4.405	-1%	4.402	-1%	4.411	-1%
<b>INCOME</b>										
Farm Net Value Added - €/farm		31.914	31.011	-3%	30.979	-3%	30.967	-3%	31.007	-3%
Farm Net Value Added per AWU - €/AWU		23.053	22.402	-3%	22.379	-3%	22.370	-3%	22.398	-3%
Remuneration for family labour - €/farm		15.823	15.083	-5%	15.059	-5%	15.049	-5%	15.080	-5%
Remuneration for family labour - €/FWU		15.255	14.376	-6%	14.437	-5%	14.444	-5%	14.420	-5%
Share of Pillar 1 payments in FNVA		26%	24%	-8%	24%	-9%	24%	-9%	24%	-8%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

in less-favoured not mountain areas	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	56.174	56.174	0%	56.174	0%	56.174	0%	56.174	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	9.411	10.601	13%	10.105	7%	10.143	8%	10.290	9%
Basic rate / decoupled - €/farm	8.979	10.161	13%	9.673	8%	9.711	8%	9.857	10%
Coupled payments - €/farm	432	440	2%	432	0%	432	0%	432	0%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	12.100	13.290	10%	12.794	6%	12.832	6%	12.979	7%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	41.030	41.030	0%	41.030	0%	41.030	0%	41.030	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	12.727	12.980	2%	12.887	1%	12.894	1%	12.922	2%
External factor costs - €/farm	7.306	7.418	2%	7.400	1%	7.404	1%	7.409	1%
Own capital - €/farm	5.426	5.569	3%	5.492	1%	5.496	1%	5.518	2%
INCOME									
Farm Net Value Added - €/farm	27.245	28.435	4%	27.940	3%	27.978	3%	28.124	3%
Farm Net Value Added per AWU - €/AWU	22.972	23.975	4%	23.558	3%	23.590	3%	23.713	3%
Remuneration for family labour - €/farm	14.518	15.455	6%	15.053	4%	15.083	4%	15.202	5%
Remuneration for family labour - €/FWU	15.126	16.020	6%	15.630	3%	15.667	4%	15.769	4%
Share of Pillar 1 payments in FNVA	35%	37%	8%	36%	5%	36%	5%	37%	6%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

in less-favoured mountain areas	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	44.871	44.871	0%	44.871	0%	44.871	0%	44.871	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	6.147	7.282	18%	8.014	30%	8.011	30%	7.642	24%
Basic rate / decoupled - €/farm	5.605	6.728	20%	7.476	33%	7.473	33%	7.104	27%
Coupled payments - €/farm	542	553	2%	538	-1%	538	-1%	538	-1%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	9.299	10.434	12%	11.166	20%	11.163	20%	10.794	16%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	28.426	28.426	0%	28.426	0%	28.426	0%	28.426	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	10.130	10.341	2%	10.476	3%	10.476	3%	10.407	3%
External factor costs - €/farm	4.959	5.118	3%	5.164	4%	5.167	4%	5.142	4%
Own capital - €/farm	5.256	5.309	1%	5.398	3%	5.395	3%	5.351	2%
INCOME									
Farm Net Value Added - €/farm	25.744	26.879	4%	27.611	7%	27.608	7%	27.239	6%
Farm Net Value Added per AWU - €/AWU	21.748	22.706	4%	23.325	7%	23.322	7%	23.011	6%
Remuneration for family labour - €/farm	15.615	16.538	6%	17.136	10%	17.132	10%	16.832	8%
Remuneration for family labour - €/FWU	15.565	16.435	6%	17.079	10%	17.076	10%	16.754	8%
Share of Pillar 1 payments in FNVA	24%	27%	13%	29%	22%	29%	22%	28%	17%

# Impacts on grassland / non grassland based farming at EU level

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Farms with less than 80% grassland	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	66.383	66.383	0%	66.383	0%	66.383	0%	66.383	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	8.131	7.579	-7%	7.584	-7%	7.585	-7%	7.587	-7%
Basic rate / decoupled - €/farm	7.923	7.367	-7%	7.374	-7%	7.375	-7%	7.377	-7%
Coupled payments - €/farm	208	212	2%	210	1%	210	1%	210	1%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	9.363	8.811	-6%	8.816	-6%	8.817	-6%	8.819	-6%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	44.451	44.451	0%	44.451	0%	44.451	0%	44.451	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.267	15.178	-1%	15.177	-1%	15.178	-1%	15.179	-1%
External factor costs - €/farm	10.515	10.445	-1%	10.457	-1%	10.458	-1%	10.455	-1%
Own capital - €/farm	4.728	4.709	0%	4.697	-1%	4.696	-1%	4.700	-1%
INCOME									
Farm Net Value Added - €/farm	31.294	30.742	-2%	30.747	-2%	30.748	-2%	30.750	-2%
Farm Net Value Added per AWU - €/AWU	23.854	23.434	-2%	23.438	-2%	23.438	-2%	23.440	-2%
Remuneration for family labour - €/farm	16.027	15.564	-3%	15.570	-3%	15.570	-3%	15.571	-3%
Remuneration for family labour - €/FWU	15.934	15.338	-4%	15.412	-3%	15.424	-3%	15.382	-3%
Share of Pillar 1 payments in FNVA	26%	25%	-5%	25%	-5%	25%	-5%	25%	-5%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Grassland based farms	Base	1		2		3		4	
	Status quo	EU flat rate		Min 80%		MFF distribution key		Min 90% and objective criteria	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	68.628	68.628	0%	68.628	0%	68.628	0%	68.628	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	10.374	13.727	32%	13.650	32%	13.645	32%	13.631	31%
Basic rate / decoupled - €/farm	9.405	12.743	35%	12.687	35%	12.682	35%	12.669	35%
Coupled payments - €/farm	970	984	1%	963	-1%	963	-1%	962	-1%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	14.817	18.170	23%	18.093	22%	18.088	22%	18.074	22%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	0	-	0	-
COSTS									
Total operating costs, depreciation and taxes	54.175	54.175	0%	54.175	0%	54.175	0%	54.175	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.129	15.796	4%	15.763	4%	15.763	4%	15.767	4%
External factor costs - €/farm	8.269	8.636	4%	8.641	5%	8.644	5%	8.638	4%
Own capital - €/farm	6.982	7.282	4%	7.244	4%	7.241	4%	7.251	4%
INCOME									
Farm Net Value Added - €/farm	29.271	32.623	11%	32.547	11%	32.542	11%	32.528	11%
Farm Net Value Added per AWU - €/AWU	23.045	25.685	11%	25.625	11%	25.621	11%	25.610	11%
Remuneration for family labour - €/farm	14.141	16.827	19%	16.783	19%	16.778	19%	16.760	19%
Remuneration for family labour - €/FWU	13.721	16.238	18%	16.214	18%	16.216	18%	16.184	18%
Share of Pillar 1 payments in FNVA	35%	42%	19%	42%	18%	42%	18%	42%	18%

## Additional income support in areas with specific natural constraints

All comparisons are done to the redistribution option "**MFF distribution key**". Options for specific natural constraint payments are described in section 4.2 above.

### Impact per farming type

#### INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

(1) Fieldcrops	Base	1		2		3		4	
	MFF distribution key	MFF distribution key		MFF distribution key		Status quo		Min 90% and objective criteria	
		Max 5% of DP; Max € 100 in LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
<b>MARKET</b>									
Output - €/farm	57.563	57.563	0%	57.563	0%	57.563	0%	57.563	0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>									
Total Pillar 1 payments - €/farm	10.942	10.785	-1%	10.774	-2%	11.645	6%	10.837	-1%
Basic rate / decoupled - €/farm	10.683	10.197	-5%	10.242	-4%	0	-100%	10.306	-4%
Coupled payments - €/farm	259	254	-2%	254	-2%	244	-6%	254	-2%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	333	-	278	-	277	-	277	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	12.318	12.160	-1%	12.149	-1%	13.020	6%	12.212	-1%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	927	-	0	-
<b>COSTS</b>									
Total operating costs, depreciation and taxes	40.161	40.161	0%	40.161	0%	40.161	0%	40.161	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.754	15.723	0%	15.721	0%	15.875	1%	15.731	0%
External factor costs - €/farm	10.697	10.676	0%	10.675	0%	10.774	1%	10.680	0%
Own capital - €/farm	5.094	5.083	0%	5.083	0%	5.138	1%	5.088	0%
<b>INCOME</b>									
Farm Net Value Added - €/farm	29.719	29.562	-1%	29.551	-1%	30.422	2%	29.614	0%
Farm Net Value Added per AWU - €/AWU	24.404	24.274	-1%	24.265	-1%	24.980	2%	24.317	0%
Remuneration for family labour - €/farm	13.966	13.839	-1%	13.830	-1%	14.547	4%	13.883	-1%
Remuneration for family labour - €/FWU	14.828	14.703	-1%	14.691	-1%	15.602	5%	14.647	-1%
Share of Pillar 1 payments in FNVA	37%	36%	-1%	36%	-1%	38%	4%	37%	-1%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

### (2) Horticulture

	Base min 1 distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020	/base	2020	/base
MARKET					
Output - €/farm	186.202	186.202	0%	186.202	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES					
Total Pillar 1 payments - €/farm	1.415	1.392	-2%	1.394	-1%
Basic rate / decoupled - €/farm	1.337	1.281	-4%	1.286	-4%
Coupled payments - €/farm	78	77	-1%	77	-1%
Greening - €/farm	0	0	-	0	-
Natural handicap - €/farm	0	34	-	32	-
Small beneficiaries - €/farm	0	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	1.654	1.631	-1%	1.633	-1%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	59	-
COSTS					
Total operating costs, depreciation and taxes	97.907	97.907	0%	97.907	0%
Estimated costs for greening - €/farm	0	0	-	0	-
Total external factors, own capital and investment aids	38.760	38.755	0%	38.756	0%
External factor costs - €/farm	33.733	33.730	0%	33.731	0%
Own capital - €/farm	4.973	4.971	0%	4.971	0%
INCOME					
Farm Net Value Added - €/farm	89.949	89.926	0%	89.928	0%
Farm Net Value Added per AWU - €/AWU	36.293	36.283	0%	36.284	0%
Remuneration for family labour - €/farm	51.189	51.171	0%	51.172	0%
Remuneration for family labour - €/FWU	45.782	45.767	0%	45.768	0%
Share of Pillar 1 payments in FNVA	2%	2%	-2%	2%	-1%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

### (3) Wine

	Base min 1 distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020	/base	2020	/base
MARKET					
Output - €/farm	89.602	89.602	0%	89.602	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES					
Total Pillar 1 payments - €/farm	4.021	3.980	-1%	3.961	-1%
Basic rate / decoupled - €/farm	3.975	3.777	-5%	3.781	-5%
Coupled payments - €/farm	46	44	-5%	44	-5%
Greening - €/farm	0	0	-	0	-
Natural handicap - €/farm	0	159	-	136	-
Small beneficiaries - €/farm	0	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	4.606	4.565	-1%	4.546	-1%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	70	-
COSTS					
Total operating costs, depreciation and taxes	40.997	40.997	0%	40.997	0%
Estimated costs for greening - €/farm	0	0	-	0	-
Total external factors, own capital and investment aids	24.292	24.285	0%	24.281	0%
External factor costs - €/farm	17.099	17.093	0%	17.093	0%
Own capital - €/farm	7.481	7.479	0%	7.476	0%
INCOME					
Farm Net Value Added - €/farm	53.211	53.170	0%	53.151	0%
Farm Net Value Added per AWU - €/AWU	35.023	34.996	0%	34.984	0%
Remuneration for family labour - €/farm	28.918	28.885	0%	28.870	0%
Remuneration for family labour - €/FWU	31.626	31.591	0%	31.575	0%
Share of Pillar 1 payments in FNVA	8%	7%	-1%	7%	-1%



# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

## (4) Other permanent crops

	Base MFF distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020 /base	2020 /base	2020 /base	2020 /base
<b>MARKET</b>					
Output - €/farm	34.943	34.943 0%	34.943 0%	34.943 0%	34.943 0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>					
Total Pillar 1 payments - €/farm	2.408	2.395 -1%	2.397 0%	2.512 4%	2.290 -5%
Basic rate / decoupled - €/farm	2.359	2.242 -5%	2.244 -5%	0 -100%	2.142 -9%
Coupled payments - €/farm	49	47 -4%	47 -4%	47 -4%	47 -4%
Greening - €/farm	0	0 -	0 -	0 -	0 -
Natural handicap - €/farm	0	106 -	107 -	105 -	101 -
Small beneficiaries - €/farm	0	0 -	0 -	0 -	0 -
Total Pillar 1 and 2 payments - €/farm	2.685	2.672 0%	2.674 0%	2.789 4%	2.567 -4%
Amounts transferred to Pillar II or capped - €/farm	0	0 -	0 -	78 -	0 -
<b>COSTS</b>					
Total operating costs, depreciation and taxes	14.543	14.543 0%	14.543 0%	14.543 0%	14.543 0%
Estimated costs for greening - €/farm	0	0 -	0 -	0 -	0 -
Total external factors, own capital and investment aids	8.831	8.828 0%	8.829 0%	8.845 0%	8.807 0%
External factor costs - €/farm	5.486	5.485 0%	5.485 0%	5.480 0%	5.482 0%
Own capital - €/farm	3.294	3.292 0%	3.293 0%	3.315 1%	3.274 -1%
<b>INCOME</b>					
Farm Net Value Added - €/farm	23.085	23.073 0%	23.075 0%	23.189 0%	22.967 -1%
Farm Net Value Added per AWU - €/AWU	20.896	20.885 0%	20.886 0%	20.990 0%	20.789 -1%
Remuneration for family labour - €/farm	14.254	14.244 0%	14.246 0%	14.344 1%	14.160 -1%
Remuneration for family labour - €/FWU	17.186	17.175 0%	17.176 0%	17.301 1%	17.072 -1%
Share of Pillar 1 payments in FNVA	10%	10% 0%	10% 0%	11% 4%	10% -4%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

## (5) Milk

	Base MFF distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020 /base	2020 /base	2020 /base	2020 /base
<b>MARKET</b>					
Output - €/farm	101.964	101.964 0%	101.964 0%	101.964 0%	101.964 0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>					
Total Pillar 1 payments - €/farm	9.752	9.879 1%	9.881 1%	10.918 12%	9.871 1%
Basic rate / decoupled - €/farm	9.644	9.216 -4%	9.263 -4%	0 -100%	9.246 -4%
Coupled payments - €/farm	108	103 -5%	103 -5%	106 -2%	103 -5%
Greening - €/farm	0	0 -	0 -	0 -	0 -
Natural handicap - €/farm	0	560 -	515 -	513 -	522 -
Small beneficiaries - €/farm	0	0 -	0 -	0 -	0 -
Total Pillar 1 and 2 payments - €/farm	12.998	13.125 1%	13.127 1%	14.164 9%	13.117 1%
Amounts transferred to Pillar II or capped - €/farm	0	0 -	0 -	798 -	0 -
<b>COSTS</b>					
Total operating costs, depreciation and taxes	73.758	73.758 0%	73.758 0%	73.758 0%	73.758 0%
Estimated costs for greening - €/farm	0	0 -	0 -	0 -	0 -
Total external factors, own capital and investment aids	19.984	20.010 0%	20.010 0%	20.168 1%	20.015 0%
External factor costs - €/farm	12.578	12.594 0%	12.594 0%	12.668 1%	12.583 0%
Own capital - €/farm	7.155	7.165 0%	7.165 0%	7.250 1%	7.181 0%
<b>INCOME</b>					
Farm Net Value Added - €/farm	41.205	41.331 0%	41.334 0%	42.371 3%	41.324 0%
Farm Net Value Added per AWU - €/AWU	29.141	29.231 0%	29.232 0%	29.966 3%	29.225 0%
Remuneration for family labour - €/farm	21.220	21.322 0%	21.324 0%	22.202 5%	21.308 0%
Remuneration for family labour - €/FWU	16.990	17.054 0%	17.061 0%	17.802 5%	17.015 0%
Share of Pillar 1 payments in FNVA	24%	24% 1%	24% 1%	26% 9%	24% 1%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

## (6) Other grazing livestock

	Base MFF distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020 /base	2020 /base	2020 /base	2020 /base
<b>MARKET</b>					
Output - €/farm	53.067	53.067 0%	53.067 0%	53.067 0%	53.067 0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>					
Total Pillar 1 payments - €/farm	14.779	15.090 2%	15.131 2%	12.596 -15%	15.037 2%
Basic rate / decoupled - €/farm	13.466	12.809 -5%	12.833 -5%	0 -100%	12.751 -5%
Coupled payments - €/farm	1.313	1.247 -5%	1.250 -5%	1.262 -4%	1.249 -5%
Greening - €/farm	0	0 -	0 -	0 -	0 -
Natural handicap - €/farm	0	1.034 -	1.048 -	1.057 -	1.037 -
Small beneficiaries - €/farm	0	0 -	0 -	0 -	0 -
Total Pillar 1 and 2 payments - €/farm	18.957	19.268 2%	19.310 2%	16.775 -12%	19.215 1%
Amounts transferred to Pillar II or capped - €/farm	0	0 -	0 -	868 -	0 -
<b>COSTS</b>					
Total operating costs, depreciation and taxes	42.669	42.669 0%	42.669 0%	42.669 0%	42.669 0%
Estimated costs for greening - €/farm	0	0 -	0 -	0 -	0 -
Total external factors, own capital and investment aids	13.005	13.065 0%	13.072 1%	12.560 -3%	13.058 0%
External factor costs - €/farm	6.727	6.764 1%	6.768 1%	6.466 -4%	6.755 0%
Own capital - €/farm	6.401	6.425 0%	6.427 0%	6.217 -3%	6.426 0%
<b>INCOME</b>					
Farm Net Value Added - €/farm	29.355	29.667 1%	29.708 1%	27.173 -7%	29.614 1%
Farm Net Value Added per AWU - €/AWU	22.771	23.012 1%	23.044 1%	21.078 -7%	22.971 1%
Remuneration for family labour - €/farm	16.350	16.601 2%	16.636 2%	14.612 -11%	16.555 1%
Remuneration for family labour - €/FWU	14.547	14.763 1%	14.793 2%	12.990 -11%	14.707 1%
Share of Pillar 1 payments in FNVA	50%	51% 1%	51% 1%	46% -8%	51% 1%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

## (7) Granivores

	Base MFF distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020 /base	2020 /base	2020 /base	2020 /base
<b>MARKET</b>					
Output - €/farm	184.342	184.342 0%	184.342 0%	184.342 0%	184.342 0%
<b>DIRECT PAYMENTS (DP) AND SUBSIDIES</b>					
Total Pillar 1 payments - €/farm	4.949	4.907 -1%	4.915 -1%	5.112 3%	4.880 -1%
Basic rate / decoupled - €/farm	4.878	4.663 -4%	4.688 -4%	0 -100%	4.649 -5%
Coupled payments - €/farm	71	67 -5%	67 -5%	68 -4%	67 -5%
Greening - €/farm	0	0 -	0 -	0 -	0 -
Natural handicap - €/farm	0	176 -	159 -	156 -	164 -
Small beneficiaries - €/farm	0	0 -	0 -	0 -	0 -
Total Pillar 1 and 2 payments - €/farm	5.805	5.763 -1%	5.771 -1%	5.968 3%	5.736 -1%
Amounts transferred to Pillar II or capped - €/farm	0	0 -	0 -	306 -	0 -
<b>COSTS</b>					
Total operating costs, depreciation and taxes	155.276	155.276 0%	155.276 0%	155.276 0%	155.276 0%
Estimated costs for greening - €/farm	0	0 -	0 -	0 -	0 -
Total external factors, own capital and investment aids	25.221	25.213 0%	25.215 0%	25.254 0%	25.213 0%
External factor costs - €/farm	18.396	18.393 0%	18.394 0%	18.414 0%	18.384 0%
Own capital - €/farm	6.553	6.549 0%	6.550 0%	6.569 0%	6.558 0%
<b>INCOME</b>					
Farm Net Value Added - €/farm	34.872	34.830 0%	34.838 0%	35.035 0%	34.803 0%
Farm Net Value Added per AWU - €/AWU	23.210	23.182 0%	23.187 0%	23.318 0%	23.164 0%
Remuneration for family labour - €/farm	9.651	9.616 0%	9.623 0%	9.780 1%	9.590 -1%
Remuneration for family labour - €/FWU	12.085	12.044 0%	12.053 0%	12.212 1%	12.018 -1%
Share of Pillar 1 payments in FNVA	14%	14% -1%	14% -1%	15% 3%	14% -1%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

## (8) Mixed

	Base MFF distribution key	1 MFF distribution key Max 5% of DP; Max € 100 in LFA	2 MFF distribution key Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	3 Status quo Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	4 Min 90% and objective criteria Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA
	2020	2020 /base	2020 /base	2020 /base	2020 /base
MARKET					
Output - €/farm	52.658	52.658 0%	52.658 0%	52.658 0%	52.658 0%
DIRECT PAYMENTS (DP) AND SUBSIDIES					
Total Pillar 1 payments - €/farm	7.586	7.587 0%	7.577 0%	7.726 2%	7.690 1%
Basic rate / decoupled - €/farm	7.342	6.996 -5%	7.029 -4%	0 -100%	7.136 -3%
Coupled payments - €/farm	244	232 -5%	233 -5%	235 -4%	232 -5%
Greening - €/farm	0	0 -	0 -	0 -	0 -
Natural handicap - €/farm	0	359 -	316 -	313 -	322 -
Small beneficiaries - €/farm	0	0 -	0 -	0 -	0 -
Total Pillar 1 and 2 payments - €/farm	9.032	9.033 0%	9.024 0%	9.172 2%	9.136 1%
Amounts transferred to Pillar II or capped - €/farm	0	0 -	0 -	576 -	0 -
COSTS					
Total operating costs, depreciation and taxes	42.674	42.674 0%	42.674 0%	42.674 0%	42.674 0%
Estimated costs for greening - €/farm	0	0 -	0 -	0 -	0 -
Total external factors, own capital and investment aids	11.045	11.045 0%	11.043 0%	11.059 0%	11.067 0%
External factor costs - €/farm	7.447	7.447 0%	7.445 0%	7.473 0%	7.442 0%
Own capital - €/farm	3.610	3.611 0%	3.611 0%	3.599 0%	3.638 1%
INCOME					
Farm Net Value Added - €/farm	19.017	19.018 0%	19.008 0%	19.156 1%	19.120 1%
Farm Net Value Added per AWU - €/AWU	14.789	14.790 0%	14.783 0%	14.898 1%	14.870 1%
Remuneration for family labour - €/farm	7.972	7.973 0%	7.965 0%	8.097 2%	8.054 1%
Remuneration for family labour - €/FWU	7.118	7.110 0%	7.107 0%	7.264 2%	7.165 1%
Share of Pillar 1 payments in FNVA	40%	40% 0%	40% 0%	40% 1%	40% 1%

# Impacts on grassland / non grassland based farming

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Farms with less than 80% grassland	Base	1		2		3		4	
	MFF distribution key	MFF distribution key		MFF distribution key		Status quo		Min 90% and objective criteria	
		Max 5% of DP; Max € 100 in LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	66.383	66.383	0%	66.383	0%	66.383	0%	66.383	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	7.585	7.530	-1%	7.521	-1%	8.039	6%	7.525	-1%
Basic rate / decoupled - €/farm	7.375	7.035	-5%	7.066	-4%	0	-100%	7.070	-4%
Coupled payments - €/farm	210	202	-4%	203	-3%	200	-5%	203	-4%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	292	-	252	-	251	-	253	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	8.817	8.762	-1%	8.752	-1%	9.271	5%	8.757	-1%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	592	-	0	-
COSTS									
Total operating costs, depreciation and taxes	44.451	44.451	0%	44.451	0%	44.451	0%	44.451	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.178	15.168	0%	15.166	0%	15.249	0%	15.167	0%
External factor costs - €/farm	10.458	10.452	0%	10.450	0%	10.503	0%	10.447	0%
Own capital - €/farm	4.696	4.692	0%	4.692	0%	4.722	1%	4.696	0%
INCOME									
Farm Net Value Added - €/farm	30.748	30.693	0%	30.684	0%	31.202	1%	30.688	0%
Farm Net Value Added per AWU - €/AWU	23.438	23.396	0%	23.389	0%	23.785	1%	23.393	0%
Remuneration for family labour - €/farm	15.570	15.525	0%	15.518	0%	15.953	2%	15.521	0%
Remuneration for family labour - €/FWU	15.424	15.379	0%	15.373	0%	15.859	3%	15.333	-1%
Share of Pillar 1 payments in FNVA	25%	25%	-1%	25%	-1%	26%	4%	25%	-1%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

Grassland based farms	Base	1		2		3		4	
	MFF distribution key	MFF distribution key		MFF distribution key		Status quo		Min 90% and objective criteria	
		Max 5% of DP; Max € 100 in LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	68.628	68.628	0%	68.628	0%	68.628	0%	68.628	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	13.645	13.991	3%	14.051	3%	10.956	-20%	14.035	3%
Basic rate / decoupled - €/farm	12.682	12.073	-5%	12.093	-5%	0	-100%	12.086	-5%
Coupled payments - €/farm	963	914	-5%	916	-5%	923	-4%	916	-5%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	1.004	-	1.042	-	1.049	-	1.033	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	18.088	18.434	2%	18.493	2%	15.398	-15%	18.477	2%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	729	-	0	-
COSTS									
Total operating costs, depreciation and taxes	54.175	54.175	0%	54.175	0%	54.175	0%	54.175	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.763	15.830	0%	15.841	0%	15.239	-3%	15.845	1%
External factor costs - €/farm	8.644	8.684	0%	8.692	1%	8.337	-4%	8.686	0%
Own capital - €/farm	7.241	7.268	0%	7.271	0%	7.025	-3%	7.281	1%
INCOME									
Farm Net Value Added - €/farm	32.542	32.888	1%	32.947	1%	29.852	-8%	32.931	1%
Farm Net Value Added per AWU - €/AWU	25.621	25.893	1%	25.940	1%	23.503	-8%	25.927	1%
Remuneration for family labour - €/farm	16.778	17.057	2%	17.106	2%	14.613	-13%	17.086	2%
Remuneration for family labour - €/FWU	16.216	16.477	2%	16.521	2%	14.163	-13%	16.487	2%
Share of Pillar 1 payments in FNVA	42%	43%	1%	43%	2%	37%	-12%	43%	2%

# Impacts in LFA/non LFA zones

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

### (1) not in less-favoured areas

	Base	1		2		3		4	
	MFF distribution key	MFF distribution key		MFF distribution key		Status quo		Min 90% and objective criteria	
		Max 5% of DP; Max € 100 in LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	70.140	70.140	0%	70.140	0%	70.140	0%	70.140	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	7.394	7.066	-4%	7.104	-4%	8.004	8%	7.147	-3%
Basic rate / decoupled - €/farm	7.206	6.884	-4%	6.922	-4%	0	-100%	6.965	-3%
Coupled payments - €/farm	188	181	-3%	182	-3%	179	-5%	181	-3%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	0	-	0	-	0	-	0	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	8.086	7.758	-4%	7.796	-4%	8.696	8%	7.839	-3%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	651	-	0	-
COSTS									
Total operating costs, depreciation and taxes	47.258	47.258	0%	47.258	0%	47.258	0%	47.258	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	15.918	15.855	0%	15.862	0%	16.025	1%	15.871	0%
External factor costs - €/farm	11.506	11.468	0%	11.473	0%	11.575	1%	11.473	0%
Own capital - €/farm	4.402	4.377	-1%	4.379	-1%	4.439	1%	4.388	0%
INCOME									
Farm Net Value Added - €/farm	30.967	30.640	-1%	30.678	-1%	31.578	2%	30.721	-1%
Farm Net Value Added per AWU - €/AWU	22.370	22.133	-1%	22.161	-1%	22.811	2%	22.192	-1%
Remuneration for family labour - €/farm	15.049	14.785	-2%	14.816	-2%	15.552	3%	14.850	-1%
Remuneration for family labour - €/FWU	14.444	14.214	-2%	14.235	-1%	15.009	4%	14.215	-2%
Share of Pillar 1 payments in FNVA	24%	23%	-3%	23%	-3%	25%	6%	23%	-3%

## INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

### (2) in less-favoured not mountain areas

	Base	1		2		3		4	
	MFF distribution key	MFF distribution key		MFF distribution key		Status quo		Min 90% and objective criteria	
		Max 5% of DP; Max € 100 in LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	56.174	56.174	0%	56.174	0%	56.174	0%	56.174	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	10.143	10.583	4%	10.418	3%	9.715	-4%	10.574	4%
Basic rate / decoupled - €/farm	9.711	9.224	-5%	9.251	-5%	0	-100%	9.391	-3%
Coupled payments - €/farm	432	413	-4%	414	-4%	413	-4%	414	-4%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	946	-	753	-	743	-	769	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	12.832	13.272	3%	13.107	2%	12.404	-3%	13.263	3%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	659	-	0	-
COSTS									
Total operating costs, depreciation and taxes	41.030	41.030	0%	41.030	0%	41.030	0%	41.030	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	12.894	12.979	1%	12.948	0%	12.786	-1%	12.977	1%
External factor costs - €/farm	7.404	7.456	1%	7.436	0%	7.342	-1%	7.442	1%
Own capital - €/farm	5.496	5.529	1%	5.518	0%	5.450	-1%	5.542	1%
INCOME									
Farm Net Value Added - €/farm	27.978	28.417	2%	28.252	1%	27.549	-2%	28.409	2%
Farm Net Value Added per AWU - €/AWU	23.590	23.960	2%	23.821	1%	23.228	-2%	23.953	2%
Remuneration for family labour - €/farm	15.083	15.438	2%	15.304	1%	14.763	-2%	15.431	2%
Remuneration for family labour - €/FWU	15.667	15.985	2%	15.867	1%	15.349	-2%	15.977	2%
Share of Pillar 1 payments in FNVA	36%	37%	3%	37%	2%	35%	-3%	37%	3%

# INCOME PROJECTIONS

Source: L3 calculations based on FADN and the AIDS7K model

## (3) in less-favoured mountain areas

	Base	1		2		3		4	
	MFF distribution key	MFF distribution key		MFF distribution key		Status quo		Min 90% and objective criteria	
		Max 5% of DP; Max € 100 in LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA		Max 5% of DP; € 50 in mountain LFA; € 25 in other LFA	
	2020	2020	/base	2020	/base	2020	/base	2020	/base
MARKET									
Output - €/farm	44.871	44.871	0%	44.871	0%	44.871	0%	44.871	0%
DIRECT PAYMENTS (DP) AND SUBSIDIES									
Total Pillar 1 payments - €/farm	8.011	8.313	-4%	8.521	-6%	6.772	-15%	8.132	-2%
Basic rate / decoupled - €/farm	7.473	7.100	-5%	7.103	-5%	0	-100%	6.754	-10%
Coupled payments - €/farm	538	511	-5%	511	-5%	516	-4%	512	-5%
Greening - €/farm	0	0	-	0	-	0	-	0	-
Natural handicap - €/farm	0	703	-	907	-	926	-	867	-
Small beneficiaries - €/farm	0	0	-	0	-	0	-	0	-
Total Pillar 1 and 2 payments - €/farm	11.163	11.466	3%	11.673	5%	9.924	-11%	11.284	1%
Amounts transferred to Pillar II or capped - €/farm	0	0	-	0	-	309	-	0	-
COSTS									
Total operating costs, depreciation and taxes	28.426	28.426	0%	28.426	0%	28.426	0%	28.426	0%
Estimated costs for greening - €/farm	0	0	-	0	-	0	-	0	-
Total external factors, own capital and investment aids	10.476	10.534	1%	10.573	1%	10.248	-2%	10.501	0%
External factor costs - €/farm	5.167	5.198	1%	5.221	1%	5.026	-3%	5.194	1%
Own capital - €/farm	5.395	5.422	1%	5.439	1%	5.309	-2%	5.393	0%
INCOME									
Farm Net Value Added - €/farm	27.608	27.911	1%	28.118	2%	26.369	-4%	27.729	0%
Farm Net Value Added per AWU - €/AWU	23.322	23.578	1%	23.753	2%	22.276	-4%	23.425	0%
Remuneration for family labour - €/farm	17.132	17.377	1%	17.545	2%	16.121	-6%	17.229	1%
Remuneration for family labour - €/FWU	17.076	17.296	1%	17.466	2%	16.049	-6%	17.127	0%
Share of Pillar 1 payments in FNVA	29%	30%	3%	30%	4%	26%	-11%	29%	1%

### **SUB-ANNEX 3D: current state of play of LFA**

#### **(5) LFA zoning**

There are three types of less favoured areas: mountain areas, intermediate areas and areas affected by specific handicaps.

Currently, mountain areas cover nearly 16% of the agricultural area of the EU and are designated according to a limited number of physical indicators (a short growing season and steep slope, and in addition areas beyond the 62<sup>nd</sup> parallel).

Approximately 31% of the agricultural land of the EU is classified as intermediate LFA (as of 2005, they are referred to as '*areas with natural handicaps*' – NHA), on the basis of a wide range of soil and climate criteria defined by Member States. Their diversity throughout the EU was spotlighted by the European Court of Auditors as a possible source of unequal treatment. In the light of this ECA report, and on a mandate from the Council, the Commission is currently carrying out an exercise together with Member States in which a delimitation of intermediate areas with natural handicaps based on common set of biophysical indicators is tested..

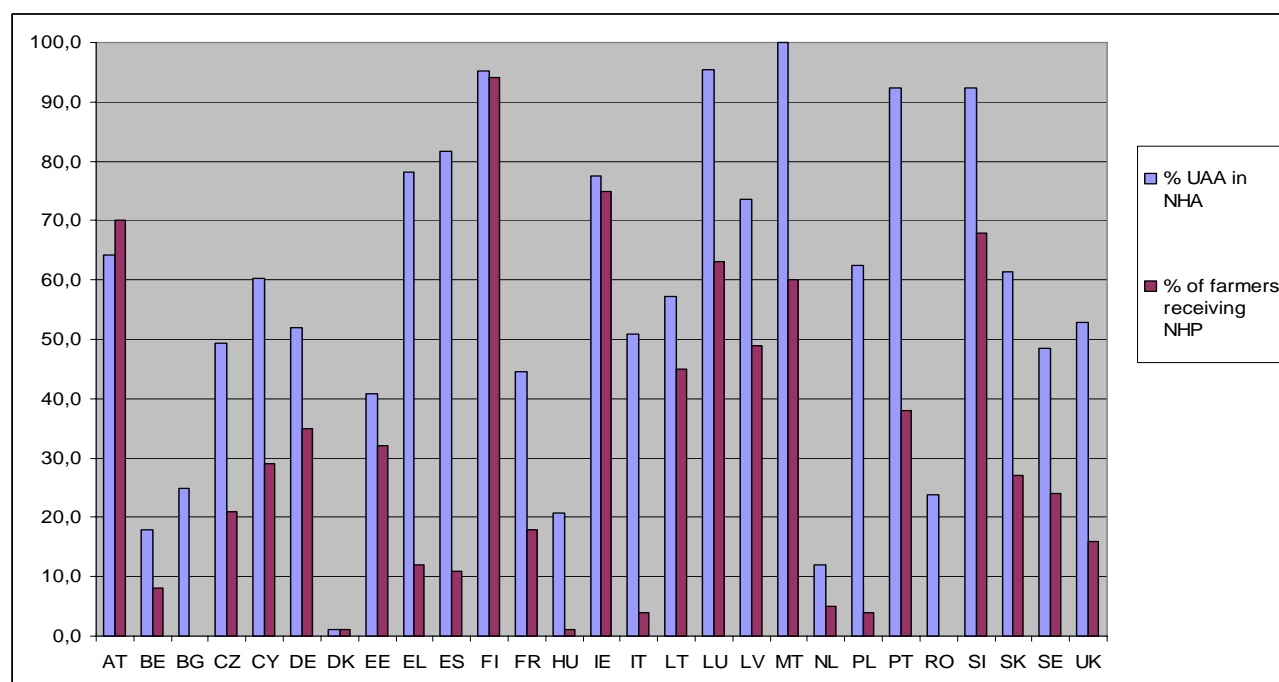
Areas affected by specific handicaps, as a third category, are areas where farming should be continued in order to conserve or improve the environment, maintain the countryside, preserve the tourist potential of the areas, or protect the coastline. These areas cover 9.1% of the EU agricultural area.

#### **(6) LFA payment in Pillar 2**

About 56% of UAA in the EU27 (i.e. about 100 million ha) has been identified as naturally handicapped. Not all of the area is subject to specific support for LFA in pillar 2, and only about 13% of all farms located in LFA currently receive the LFA payments in pillar 2. The total indicative EAFRD budget for these measures amounts to EUR 12.6bn.

The payments are calculated according to additional cost and loss of income related to the handicap, and the amounts of payments are capped by EUR 250/ha in mountain areas and EUR 150/ha in other areas. The minimum payment is EUR 25/ha. Farmers (who are the only beneficiaries) are obliged to continue farming (in LFA) for at least five years since the first payment and they are obliged to apply GAEC.

(7) Share of NHA in total UAA and percentage of farms receiving NHP from the total number of farms (2005)





### **SUB-ANNEX 3E: Suppression of coupled support for beef, sheep and goat sectors**

See separate document